

*Note: [01 Feb 2017] – The following is a consolidation of NI 31-103. It incorporates amendments to this document that came into effect on January 1, 2011, July 11, 2011, February 28, 2012, May 31, 2013, July 15, 2013 (incorporating transitional provisions effective July 15, 2014, July 15, 2015 and July 15, 2016), May 1, 2014, September 22, 2014, October 31, 2014, January 11, 2015, May 5, 2015, December 1, 2016, February 1, 2017 and local amendments in New Brunswick as described in CSA Notice 11-334. This consolidation is provided for your convenience and should not be relied on as authoritative.*

**NATIONAL INSTRUMENT 31-103  
REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT  
OBLIGATIONS**

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**NATIONAL INSTRUMENT 31-103**  
**REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT**  
**OBLIGATIONS**

**PART 1 - INTERPRETATION**

**1.1 Definitions of terms used throughout this instrument**

In this Instrument

“book cost” means the total amount paid to purchase a security, including any transaction charges related to the purchase, adjusted for reinvested distributions, returns of capital and corporate reorganizations;

“Canadian financial institution” has the same meaning as in section 1.1 of National Instrument 45-106 *Prospectus Exemptions*;

“connected issuer” has the same meaning as in section 1.1 of National Instrument 33-105 *Underwriting Conflicts*;

“debt security” has the same meaning as in section 1.1 of National Instrument 45-106 *Prospectus Exemptions*;

“designated rating” has the same meaning as in National Instrument 81-102 *Investment Funds*;

“designated rating organization” has the same meaning as in National Instrument 81-102 *Investment Funds*;

“DRO affiliate” means an affiliate of a designated rating organization that issues credit ratings in a foreign jurisdiction and that has been designated as such under the terms of the designated rating organization’s designation;

“eligible client” means a client of a person or company if any of the following apply:

- (a) the client is an individual and was a client of the person or company immediately before becoming resident in the local jurisdiction;
- (b) the client is the spouse or a child of a client referred to in paragraph (a);
- (c) except in Ontario, the client is a client of the person or company on September 27, 2009 pursuant to the person or company's reliance on an exemption from the registration requirement under Part 5 of Multilateral Instrument 11-101 *Principal Regulator System* on that date;

“exempt market dealer” means a person or company registered in the category of exempt market dealer;

“IIROC” means the Investment Industry Regulatory Organization of Canada;

"IIROC provision" means a by-law, rule, regulation or policy of IIROC named in Appendix G, as amended from time to time;

“interim period” means a period commencing on the first day of the financial year and ending 9, 6 or 3 months before the end of the financial year;

“investment dealer” means a person or company registered in the category of investment dealer;

“managed account” means an account of a client for which a person or company makes the investment decisions if that person or company has discretion to trade in securities for the account without requiring the client’s express consent to a transaction;

“marketplace” has the same meaning as in section 1.1 of National Instrument 21-101 *Marketplace Operation*;

“MFDA” means the Mutual Fund Dealers Association of Canada;

"MFDA provision" means a by-law, rule, regulation or policy of the MFDA named in Appendix H, as amended from time to time;

“mutual fund dealer” means a person or company registered in the category of mutual fund dealer;

“operating charge” means any amount charged to a client by a registered firm in respect of the operation, transfer or termination of an account of the client and includes any federal, provincial or territorial sales taxes paid on that amount;

“original cost” means the total amount paid to purchase a security, including any transaction charges related to the purchase;

“permitted client” means any of the following:

- (a) a Canadian financial institution or a Schedule III bank;
- (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada);
- (c) a subsidiary of any person or company referred to in paragraph (a) or (b), if the person or company owns all of the voting securities of the

subsidiary, except the voting securities required by law to be owned by directors of the subsidiary;

- (d) a person or company registered under the securities legislation of a jurisdiction of Canada as an adviser, investment dealer, mutual fund dealer or exempt market dealer;
- (e) a pension fund that is regulated by either the federal Office of the Superintendent of Financial Institutions or a pension commission or similar regulatory authority of a jurisdiction of Canada or a wholly-owned subsidiary of such a pension fund;
- (f) an entity organized in a foreign jurisdiction that is analogous to any of the entities referred to in paragraphs (a) to (e);
- (g) the Government of Canada or a jurisdiction of Canada, or any Crown corporation, agency or wholly-owned entity of the Government of Canada or a jurisdiction of Canada;
- (h) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any agency of that government;
- (i) a municipality, public board or commission in Canada and a metropolitan community, school board, the Comité de gestion de la taxe scolaire de l'île de Montréal or an intermunicipal management board in Québec;
- (j) a trust company or trust corporation registered or authorized to carry on business under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction, acting on behalf of a managed account managed by the trust company or trust corporation, as the case may be;
- (k) a person or company acting on behalf of a managed account managed by the person or company, if the person or company is registered or authorized to carry on business as an adviser or the equivalent under the securities legislation of a jurisdiction of Canada or a foreign jurisdiction;
- (l) an investment fund if one or both of the following apply:
  - (i) the fund is managed by a person or company registered as an investment fund manager under the securities legislation of a jurisdiction of Canada;
  - (ii) the fund is advised by a person or company authorized to act as an adviser under the securities legislation of a jurisdiction of Canada;



- (m) in respect of a dealer, a registered charity under the *Income Tax Act* (Canada) that obtains advice on the securities to be traded from an eligibility adviser, as defined in section 1.1 of National Instrument 45-106 *Prospectus Exemptions*, or an adviser registered under the securities legislation of the jurisdiction of the registered charity;
- (n) in respect of an adviser, a registered charity under the *Income Tax Act* (Canada) that is advised by an eligibility adviser, as defined in section 1.1 of National Instrument 45-106 *Prospectus Exemptions*, or an adviser registered under the securities legislation of the jurisdiction of the registered charity;
- (o) an individual who beneficially owns financial assets, as defined in section 1.1 of National Instrument 45-106 *Prospectus Exemptions*, having an aggregate realizable value that, before taxes but net of any related liabilities, exceeds \$5 million;
- (p) a person or company that is entirely owned by an individual or individuals referred to in paragraph (o), who holds the beneficial ownership interest in the person or company directly or through a trust, the trustee of which is a trust company or trust corporation registered or authorized to carry on business under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction;
- (q) a person or company, other than an individual or an investment fund, that has net assets of at least \$25 million as shown on its most recently prepared financial statements;
- (r) a person or company that distributes securities of its own issue in Canada only to persons or companies referred to in paragraphs (a) to (q);

“portfolio manager” means a person or company registered in the category of portfolio manager;

“principal jurisdiction” means

- (a) for a person or company other than an individual, the jurisdiction of Canada in which the person or company’s head office is located, and
- (b) for an individual, the jurisdiction of Canada in which the individual’s working office is located;

“principal regulator” has the same meaning as in section 4A.1 of Multilateral Instrument 11-102 *Passport System*;

“registered firm” means a registered dealer, a registered adviser, or a registered investment fund manager;

“registered individual” means an individual who is registered

- (a) in a category that authorizes the individual to act as a dealer or an adviser on behalf of a registered firm,
- (b) as ultimate designated person, or
- (c) as chief compliance officer;

“related issuer” has the same meaning as in section 1.1 of National Instrument 33-105 *Underwriting Conflicts*;

“restricted dealer” means a person or company registered in the category of restricted dealer;

“restricted portfolio manager” means a person or company registered in the category of restricted portfolio manager;

“Schedule III bank” means an authorized foreign bank named in Schedule III of the *Bank Act* (Canada);

“scholarship plan dealer” means a person or company registered in the category of scholarship plan dealer;

“sponsoring firm” means the firm registered in a jurisdiction of Canada on whose behalf an individual acts as a dealer, an underwriter, an adviser, a chief compliance officer or an ultimate designated person;

“sub-adviser” means an adviser to

- (a) a registered adviser, or
- (b) a registered dealer acting as a portfolio manager as permitted by section 8.24 [*IIROC members with discretionary authority*];

“subsidiary” has the same meaning as in section 1.1 of National Instrument 45-106 *Prospectus Exemptions*;

“total percentage return” means 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” means any payment related to a client’s ownership of a security that is part of a continuing series of payments to a registered firm or registered individual by any party;

“transaction charge” means any amount charged to a client by a registered firm in respect of a purchase or sale of a security and includes any federal, provincial or territorial sales taxes paid on that amount;

“working office” means the office of the sponsoring firm where an individual does most of his or her business.

## **1.2 Interpretation of “Securities” in Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan**

- (1) In British Columbia, a reference to “securities” in this Instrument includes “exchange contracts”, unless the context otherwise requires.
- (2) In Alberta, New Brunswick, Nova Scotia and Saskatchewan, a reference to “securities” in this Instrument includes “derivatives”, unless the context otherwise requires.

## **1.3 Information may be given to the principal regulator**

- (1) [Repealed]
- (2) For the purpose of a requirement in this Instrument to notify or to deliver or submit a document to the regulator or the securities regulatory authority, the person or company may notify or deliver or submit the document to the person or company’s principal regulator.
- (3) [Repealed]
- (4) Despite subsection (2), for the purpose of the notice and delivery requirements in section 11.9 [*registrant acquiring a registered firm’s securities or assets*], if the principal regulator of the registrant and the principal regulator of the firm identified in paragraph 11.9(1)(a) or 11.9(1)(b), if registered in any jurisdiction of Canada, are not the same, the registrant must deliver the written notice to the following:
  - (a) the registrant’s principal regulator; and

- (b) the principal regulator of the firm identified in paragraph 11.9(1)(a) or 11.9(1)(b) as applicable, if registered in any jurisdiction of Canada identified in paragraph 11.9(1)(a) or 11.9(1)(b).
- (5) Subsection (2) does not apply to
  - (a) section 8.18 [*international dealer*], and
  - (b) section 8.26 [*international adviser*].

## **PART 2 - CATEGORIES OF REGISTRATION FOR INDIVIDUALS**

### **2.1 Individual categories**

- (1) The following are the categories of registration for an individual who is required, under securities legislation, to be registered to act on behalf of a registered firm:
  - (a) dealing representative;
  - (b) advising representative;
  - (c) associate advising representative;
  - (d) ultimate designated person;
  - (e) chief compliance officer.
- (2) An individual registered in the category of
  - (a) dealing representative may act as a dealer or an underwriter in respect of a security that the individual's sponsoring firm is permitted to trade or underwrite,
  - (b) advising representative may act as an adviser in respect of a security that the individual's sponsoring firm is permitted to advise on,
  - (c) associate advising representative may act as an adviser in respect of a security that the individual's sponsoring firm is permitted to advise on if the advice has been approved under subsection 4.2(1) [*associate advising representatives – pre-approval of advice*],
  - (d) ultimate designated person must perform the functions set out in section 5.1 [*responsibilities of the ultimate designated person*], and

- (e) chief compliance officer must perform the functions set out in section 5.2 [*responsibilities of the chief compliance officer*].
- (3) Subsection (1) does not apply in Ontario.

Note: In Ontario, the same categories of registration for individuals as in subsection 2.1(1) are set out under section 25 of the <i>Securities Act</i> (Ontario).
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## 2.2 Client mobility exemption – Individuals

- (1) The registration requirement does not apply to an individual if all of the following apply:
  - (a) the individual is registered as a dealing, advising or associate advising representative in the individual's principal jurisdiction;
  - (b) the individual's sponsoring firm is registered in the firm's principal jurisdiction;
  - (c) the individual does not act as a dealer, underwriter or adviser in the local jurisdiction other than as he or she is permitted to in his or her principal jurisdiction according to the individual's registration in that jurisdiction;
  - (d) the individual does not act as a dealer, underwriter or adviser in the local jurisdiction other than for 5 or fewer eligible clients;
  - (e) the individual complies with Part 13 *Dealing with clients – individuals and firms*;
  - (f) the individual deals fairly, honestly and in good faith in the course of his or her dealings with an eligible client;
  - (g) before first acting as a dealer or adviser for an eligible client, the individual's sponsoring firm has disclosed to the client that the individual, and if the firm is relying on section 8.30 [*client mobility exemption – firms*], the firm,
    - (i) is exempt from registration in the local jurisdiction, and
    - (ii) is not subject to requirements otherwise applicable under local securities legislation.
- (2) If an individual relies on the exemption in this section, the individual's sponsoring firm must submit a completed Form 31-103F3 *Use of Mobility Exemption* to the securities regulatory authority of the local jurisdiction as soon as possible after the individual first relies on this section.

## **2.3 Individuals acting for investment fund managers**

The investment fund manager registration requirement does not apply to an individual acting on behalf of a registered investment fund manager.

## **PART 3 - REGISTRATION REQUIREMENTS – INDIVIDUALS**

### *Division 1 General proficiency requirements*

#### **3.1 Definitions**

In this Part

“Branch Manager Proficiency Exam” means the examination prepared and administered by the RESP Dealers Association of Canada and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination;

“Canadian Investment Funds Course Exam” means the examination prepared and administered by the IFSE Institute and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination;

“Canadian Investment Manager designation” means the designation earned through the Canadian investment manager program prepared and administered by CSI Global Education Inc. and so named on the day this Instrument comes into force, and every program that preceded that program, or succeeded that program, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned program;

“Canadian Securities Course Exam” means the examination prepared and administered by CSI Global Education Inc. and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination;

“Chief Compliance Officers Qualifying Exam” means the examination prepared and administered by CSI Global Education Inc. and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination;

“CFA Charter” means the charter earned through the Chartered Financial Analyst program prepared and administered by the CFA Institute and so named on the day this Instrument comes into force, and every program that preceded that program, or succeeded that program, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned program;

“Exempt Market Products Exam” means the examination prepared and administered by the IFSE Institute and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination;

“Investment Funds in Canada Course Exam” means the examination prepared and administered by CSI Global Education Inc. and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination;

“Mutual Fund Dealers Compliance Exam” means the examination prepared and administered by the IFSE Institute and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination;

“New Entrants Course Exam” means the examination prepared and administered by CSI Global Education Inc. and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination;

“PDO Exam” means

- (a) the Officers’, Partners’ and Directors’ Exam prepared and administered by the IFSE Institute and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination, or
- (b) the Partners, Directors and Senior Officers Course Exam prepared and administered by CSI Global Education Inc. and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination;

“Sales Representative Proficiency Exam” means the examination prepared and administered by the RESP Dealers Association of Canada and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination;

“Series 7 Exam” means the examination prepared and administered by the Financial Industry Regulatory Authority in the United States of America and so named on the day this Instrument comes into force, and every examination that preceded that examination, or succeeded that examination, that does not have a significantly reduced scope and content when compared to the scope and content of the first-mentioned examination.

### **3.2 U.S. equivalency**

In this Part, an individual is not required to have passed the Canadian Securities Course Exam if the individual has passed the Series 7 Exam and the New Entrants Course Exam.

### **3.3 Time limits on examination requirements**

- (1) For the purpose of this Part, an individual is deemed to have not passed an examination unless the individual passed the examination not more than 36 months before the date of his or her application for registration.
- (2) Subsection (1) does not apply if the individual passed the examination more than 36 months before the date of his or her application and has met one of the following conditions:
  - (a) the individual was registered in the same category in any jurisdiction of Canada at any time during the 36-month period before the date of his or her application;
  - (b) the individual has gained 12 months of relevant securities industry experience during the 36-month period before the date of his or her application.
- (3) For the purpose of paragraph (2)(a), an individual is not considered to have been registered during any period in which the individual’s registration was suspended.
- (4) Subsection (1) does not apply to the examination requirements in
  - (a) section 3.7 [*scholarship plan dealer – dealing representative*] if the individual was registered in a jurisdiction of Canada as a dealing representative of a scholarship plan dealer on and since September 28, 2009, and



- (b) section 3.9 [*exempt market dealer – dealing representative*] if the individual was registered as a dealing representative of an exempt market dealer in Ontario or Newfoundland and Labrador on and since September 28, 2009.

*Division 2 Education and experience requirements*

**3.4 Proficiency – Initial and ongoing**

- (1) An individual must not perform an activity that requires registration 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.
- (2) A chief compliance officer must not perform an activity set out in section 5.2 [*responsibilities of the chief compliance officer*] unless the individual has the education, training and experience that a reasonable person would consider necessary to perform the activity competently.

**3.5 Mutual fund dealer – Dealing representative**

A dealing representative of a mutual fund dealer must not act as a dealer in respect of the securities listed in paragraph 7.1(2)(b) unless any of the following apply:

- (a) the individual has passed the Canadian Investment Funds Course Exam, the Canadian Securities Course Exam or the Investment Funds in Canada Course Exam;
- (b) the individual has met the requirements of section 3.11 [*portfolio manager – advising representative*];
- (c) the individual has earned a CFA Charter and has gained 12 months of relevant securities industry experience in the 36-month period before applying for registration;
- (d) the individual is exempt from section 3.11 [*portfolio manager – advising representative*] because of subsection 16.10(1) [*proficiency for dealing and advising representatives*].

**3.6 Mutual fund dealer – Chief compliance officer**

A mutual fund dealer must not designate an individual as its chief compliance officer under subsection 11.3(1) [*designating a chief compliance officer*] unless any of the following apply:

- (a) the individual has
  - (i) passed the Canadian Investment Funds Course Exam, the Canadian Securities Course Exam or the Investment Funds in Canada Course Exam,
  - (ii) passed the PDO Exam, the Mutual Fund Dealers Compliance Exam or the Chief Compliance Officers Qualifying Exam, and
  - (iii) gained 12 months of relevant securities industry experience in the 36-month period before applying for registration;
- (b) the individual has met the requirements of section 3.13 [*portfolio manager – chief compliance officer*];
- (c) section 3.13 [*portfolio manager – chief compliance officer*] does not apply in respect of the individual because of subsection 16.9(2) [*registration of chief compliance officers*].

### **3.7 Scholarship plan dealer – Dealing representative**

A dealing representative of a scholarship plan dealer must not act as a dealer in respect of the securities listed in paragraph 7.1(2)(c) unless the individual has passed the Sales Representative Proficiency Exam.

### **3.8 Scholarship plan dealer – Chief compliance officer**

A scholarship plan dealer must not designate an individual as its chief compliance officer under subsection 11.3(1) [*designating a chief compliance officer*] unless the individual has

- (a) passed the Sales Representative Proficiency Exam,
- (b) passed the Branch Manager Proficiency Exam,
- (c) passed the PDO Exam or the Chief Compliance Officers Qualifying Exam, and
- (d) gained 12 months of relevant securities industry experience in the 36-month period before applying for registration.

### **3.9 Exempt market dealer – Dealing representative**

A dealing representative of an exempt market dealer must not perform an activity listed in paragraph 7.1(2)(d) unless any of the following apply:

- (a) the individual has passed the Canadian Securities Course Exam;
- (b) the individual has passed the Exempt Market Products Exam;
- (c) the individual has earned a CFA Charter and has gained 12 months of relevant securities industry experience in the 36-month period before applying for registration;
- (d) the individual satisfies the conditions set out in section 3.11 [*portfolio manager – advising representative*];
- (e) the individual is exempt from section 3.11 [*portfolio manager – advising representative*] because of subsection 16.10(1) [*proficiency for dealing and advising representatives*].

### **3.10 Exempt market dealer – Chief compliance officer**

An exempt market dealer must not designate an individual as its chief compliance officer under subsection 11.3(1) [*designating a chief compliance officer*] unless any of the following apply:

- (a) the individual has
  - (i) passed the Exempt Market Products Exam or the Canadian Securities Course Exam,
  - (ii) passed the PDO Exam or the Chief Compliance Officers Qualifying Exam, and
  - (iii) gained 12 months of relevant securities industry experience in the 36-month period before applying for registration;
- (b) the individual has met the requirements of section 3.13 [*portfolio manager – chief compliance officer*];
- (c) section 3.13 [*portfolio manager – chief compliance officer*] does not apply in respect of the individual because of subsection 16.9(2) [*registration of chief compliance officers*].

### **3.11 Portfolio manager – Advising representative**

An advising representative of a portfolio manager must not act as an adviser on behalf of the portfolio manager unless any of the following apply:

- (a) the individual has earned a CFA Charter and has gained 12 months of relevant investment management experience in the 36-month period before applying for registration;
- (b) the individual has received the Canadian Investment Manager designation and has gained 48 months of relevant investment management experience, 12 months of which was gained in the 36-month period before applying for registration.

### **3.12 Portfolio manager – Associate advising representative**

An associate advising representative of a portfolio manager must not act as an adviser on behalf of the portfolio manager unless any of the following apply:

- (a) the individual has completed Level 1 of the Chartered Financial Analyst program and has gained 24 months of relevant investment management experience;
- (b) the individual has received the Canadian Investment Manager designation and has gained 24 months of relevant investment management experience.

### **3.13 Portfolio manager – Chief compliance officer**

A portfolio manager must not designate an individual as its chief compliance officer under subsection 11.3(1) [*designating a chief compliance officer*] unless any of the following apply:

- (a) the individual has
  - (i) earned a CFA Charter or a professional designation as a lawyer, Chartered Accountant, Certified General Accountant or Certified Management Accountant in a jurisdiction of Canada, a notary in Québec, or the equivalent in a foreign jurisdiction,
  - (ii) passed the PDO Exam or the Chief Compliance Officers Qualifying Exam and, unless the individual has earned the CFA Charter, the Canadian Securities Course Exam, and
  - (iii) either
    - A) gained 36 months of relevant securities experience while working at an investment dealer, a registered adviser or an investment fund manager, or

- B) provided professional services in the securities industry for 36 months and also worked at a registered dealer, a registered adviser or an investment fund manager for 12 months;
- (b) the individual has passed the Canadian Securities Course Exam and either the PDO Exam or the Chief Compliance Officers Qualifying Exam and any of the following apply:
    - (i) the individual has worked at an investment dealer or a registered adviser for 5 years, including for 36 months in a compliance capacity;
    - (ii) the individual has worked for 5 years at a Canadian financial institution in a compliance capacity relating to portfolio management and also worked at a registered dealer or a registered adviser for 12 months;
  - (c) the individual has passed either the PDO Exam or the Chief Compliance Officers Qualifying Exam and has met the requirements of section 3.11 [*portfolio manager – advising representative*].

### **3.14 Investment fund manager – Chief compliance officer**

An investment fund manager must not designate an individual as its chief compliance officer under subsection 11.3(1) [*designating a chief compliance officer*] unless any of the following apply:

- (a) the individual has
  - (i) earned a CFA Charter or a professional designation as a lawyer, Chartered Accountant, Certified General Accountant or Certified Management Accountant in a jurisdiction of Canada, a notary in Québec, or the equivalent in a foreign jurisdiction,
  - (ii) passed the PDO Exam or the Chief Compliance Officers Qualifying Exam and, unless the individual has earned the CFA Charter, the Canadian Securities Course Exam, and
  - (iii) either
    - A) gained 36 months of relevant securities experience while working at a registered dealer, a registered adviser or an investment fund manager, or

- B) provided professional services in the securities industry for 36 months and also worked in a relevant capacity at an investment fund manager for 12 months;
- (b) the individual has
    - (i) passed the Canadian Investment Funds Course Exam, the Canadian Securities Course Exam, or the Investment Funds in Canada Course Exam,
    - (ii) passed the PDO Exam or the Chief Compliance Officers Qualifying Exam, and
    - (iii) gained 5 years of relevant securities experience while working at a registered dealer, registered adviser or an investment fund manager, including 36 months in a compliance capacity;
  - (c) the individual has met the requirements of section 3.13 [*portfolio manager – chief compliance officer*];
  - (d) section 3.13 [*portfolio manager – chief compliance officer*] does not apply in respect of the individual because of subsection 16.9(2) [*registration of chief compliance officers*].

*Division 3      Membership in a self-regulatory organization*

**3.15 Who must be approved by an SRO before registration**

- (1) A dealing representative of an investment dealer that is a member of IIROC must be an “approved person” as defined under the rules of IIROC.
- (2) Except in Québec, a dealing representative of a mutual fund dealer that is a member of the MFDA must be an “approved person” as defined under the rules of the MFDA.

**3.16 Exemptions from certain requirements for SRO-approved persons**

- (1) The following sections do not apply to a registered individual who is a dealing representative of a member of IIROC:
  - (a) subsection 13.2(3) [*know your client*];
  - (b) section 13.3 [*suitability*];
  - (c) section 13.13 [*disclosure when recommending the use of borrowed money*].

- (1.1) Subsection (1) only applies to a registered individual who is a dealing representative of a member of IIROC in respect of a requirement specified in any of paragraphs (1)(a) to (c) if the registered individual complies with the corresponding IIROC provisions that are in effect.
- (2) The following sections do not apply to a registered individual who is a dealing representative of a member of the MFDA:
  - (a) section 13.3 [*suitability*];
  - (b) section 13.13 [*disclosure when recommending the use of borrowed money*].
- (2.1) Subsection (2) only applies to a registered individual who is a dealing representative of a member of the MFDA in respect of a requirement specified in paragraph (2)(a) or (b) if the registered individual complies with the corresponding MFDA provisions that are in effect.
- (3) In Québec, the requirements listed in subsection (2) do not apply to a registered individual who is a dealing representative of a mutual fund dealer to the extent equivalent requirements to those listed in subsection (2) are applicable to the registered individual under the regulations in Québec.

## **PART 4 - RESTRICTIONS ON REGISTERED INDIVIDUALS**

### **4.1 Restriction on acting for another registered firm**

- (1) A firm registered in any jurisdiction of Canada must not permit an individual to act as a dealing, advising or associate advising representative of the registered firm if either of the following apply:
  - (a) the individual acts as an officer, partner or director of another firm registered in any jurisdiction of Canada that is not an affiliate of the first-mentioned registered firm;
  - (b) the individual is registered as a dealing, advising or associate advising representative of another firm registered in any jurisdiction of Canada.
- (2) Paragraph (1)(b) does not apply in respect of a representative whose registration as a dealing, advising or associate advising representative of more than one registered firm was granted before July 11, 2011.

#### **4.2 Associate advising representatives – Pre-approval of advice**

- (1) An associate advising representative of a registered adviser must not advise on securities unless, before giving the advice, the advice has been approved by an individual designated by the registered firm under subsection (2).
- (2) A registered adviser must designate, for an associate advising representative, an advising representative to review the advice of the associate advising representative.
- (3) No later than 7 days following the date of a designation under subsection (2), a registered adviser must provide the regulator or, in Québec, the securities regulatory authority with the names of the advising representative and the associate advising representative who are the subject of the designation.

### **PART 5 - ULTIMATE DESIGNATED PERSON AND CHIEF COMPLIANCE OFFICER**

#### **5.1 Responsibilities of the ultimate designated person**

The ultimate designated person of a registered firm must do all of the following:

- (a) supervise the activities of the firm that are directed towards ensuring compliance with securities legislation by the firm and each individual acting on the firm's behalf;
- (b) promote compliance by the firm, and individuals acting on its behalf, with securities legislation.

#### **5.2 Responsibilities of the chief compliance officer**

The chief compliance officer of a registered firm must do all of the following:

- (a) establish and maintain policies and procedures for assessing compliance by the firm, and individuals acting on its behalf, with securities legislation;
- (b) monitor and assess compliance by the firm, and individuals acting on its behalf, with securities legislation;
- (c) report to the ultimate designated person of the firm as soon as possible if the chief compliance officer becomes aware of any circumstances indicating that the firm, or any individual acting on its behalf, may be in non-compliance with securities legislation and any of the following apply:



- (i) the non-compliance creates, in the opinion of a reasonable person, a risk of harm to a client;
- (ii) the non-compliance creates, in the opinion of a reasonable person, a risk of harm to the capital markets;
- (iii) the non-compliance is part of a pattern of non-compliance;
- (d) submit an annual report to the firm's board of directors, or individuals acting in a similar capacity for the firm, for the purpose of assessing compliance by the firm, and individuals acting on its behalf, with securities legislation.

## **PART 6 - SUSPENSION AND REVOCATION OF REGISTRATION – INDIVIDUALS**

### **6.1 If individual ceases to have authority to act for firm**

If a registered individual ceases to have authority to act as a registered individual on behalf of his or her sponsoring firm because of the end of, or a change in, the individual's employment, partnership, or agency relationship with the firm, the individual's registration with the firm is suspended until reinstated or revoked under securities legislation.

### **6.2 If IIROC approval is revoked or suspended**

If IIROC revokes or suspends a registered individual's approval in respect of an investment dealer, the individual's registration as a dealing representative of the investment dealer is suspended until reinstated or revoked under securities legislation.

### **6.3 If MFDA approval is revoked or suspended**

Except in Québec, if the MFDA revokes or suspends a registered individual's approval in respect of a mutual fund dealer, the individual's registration as a dealing representative of the mutual fund dealer is suspended until reinstated or revoked under securities legislation.

### **6.4 If sponsoring firm is suspended**

If a registered firm's registration in a category is suspended, the registration of each registered dealing, advising or associate advising representative acting on behalf of the firm in that category is suspended until reinstated or revoked under securities legislation.

## **6.5 Dealing and advising activities suspended**

If an individual's registration in a category is suspended, the individual must not act as a dealer, an underwriter or an adviser, as the case may be, under that category.

## **6.6 Revocation of a suspended registration – Individual**

If a registration of an individual has been suspended under this Part and it has not been reinstated, the registration is revoked on the 2<sup>nd</sup> anniversary of the suspension.

## **6.7 Exception for individuals involved in a hearing or proceeding**

Despite section 6.6, if a hearing or proceeding concerning a suspended individual is commenced under securities legislation or under the rules of an SRO, the individual's registration remains suspended.

## **6.8 Application of Part 6 in Ontario**

Other than section 6.5 [*dealing and advising activities suspended*], this Part does not apply in Ontario.

Note: In Ontario, measures governing suspension in section 29 of the *Securities Act* (Ontario) are similar to those in Parts 6 and 10.

# **PART 7 - CATEGORIES OF REGISTRATION FOR FIRMS**

## **7.1 Dealer categories**

- (1) The following are the categories of registration for a person or company that is required, under securities legislation, to be registered as a dealer:
  - (a) investment dealer;
  - (b) mutual fund dealer;
  - (c) scholarship plan dealer;
  - (d) exempt market dealer;
  - (e) restricted dealer.

- (2) A person or company registered in the category of
  - (a) investment dealer may act as a dealer or an underwriter in respect of any security,
  - (b) mutual fund dealer may act as a dealer in respect of any security of
    - (i) a mutual fund, or
    - (ii) an investment fund that is a labour-sponsored investment fund corporation or labour-sponsored venture capital corporation under legislation of a jurisdiction of Canada,
  - (c) scholarship plan dealer may act as a dealer in respect of a security of a scholarship plan, an educational plan or an educational trust,
  - (d) exempt market dealer may
    - (i) act as a dealer by trading a security that is distributed under an exemption from the prospectus requirement, whether or not a prospectus was filed in respect of the distribution,
    - (ii) subject to subsection (5), act as a dealer by trading a security that, if the trade were a distribution, would be exempt from the prospectus requirement, or
    - (iii) [repealed]
    - (iv) act as an underwriter in respect of a distribution of securities that is made under an exemption from the prospectus requirement,
  - (e) restricted dealer may act as a dealer or an underwriter in accordance with the terms, conditions, restrictions or requirements applied to its registration.
- (3) [Repealed]
- (4) Subsection (1) does not apply in Ontario.
- (5) An exempt market dealer must not trade a security if
  - (a) the security is listed, quoted or traded on a marketplace, and

- (b) the trade in the security does not require reliance on a further exemption from the prospectus requirement.

Note: In Ontario, the same categories of registration for firms acting as dealers as in subsection 7.1(1) are set out under subsection 26(2) of the *Securities Act* (Ontario).

## 7.2 Adviser categories

- (1) The following are the categories of registration for a person or company that is required, under securities legislation, to be registered as an adviser:
  - (a) portfolio manager;
  - (b) restricted portfolio manager.
- (2) A person or company registered in the category of
  - (a) portfolio manager may act as an adviser in respect of any security, and
  - (b) restricted portfolio manager may act as an adviser in respect of any security in accordance with the terms, conditions, restrictions or requirements applied to its registration.
- (3) Subsection (1) does not apply in Ontario.

Note: In Ontario, the same categories of registration for firms acting as advisers as in subsection 7.2(1) are set out under subsection 26(6) of the *Securities Act* (Ontario).

## 7.3 Investment fund manager category

The category of registration for a person or company that is required, under securities legislation, to be registered as an investment fund manager is “investment fund manager”.

# PART 8 - EXEMPTIONS FROM THE REQUIREMENT TO REGISTER

## Division 1 Exemptions from dealer and underwriter registration

### 8.01 General condition to dealer registration requirement exemptions

The exemptions in this Division are not available to a person or company if the person or company is registered in the local jurisdiction and if their category of registration permits the person or company to act as a dealer or trade in a security for which the exemption is provided.

## **8.1 Interpretation of “trade” in Québec**

In this Part, in Québec, "trade" refers to any of the following activities:

- (a) the activities described in the definition of "dealer" in section 5 of the *Securities Act* (R.S.Q., c. V-1.1), including the following activities:
  - (i) the sale or disposition of a security by onerous title, whether the terms of payment are on margin, installment or otherwise, but does not include a transfer or the giving in guarantee of securities in connection with a debt or the purchase of a security, except as provided in paragraph (b);
  - (ii) participation as a trader in any transaction in a security through the facilities of an exchange or a quotation and trade reporting system;
  - (iii) the receipt by a registrant of an order to buy or sell a security;
- (b) a transfer or the giving in guarantee of securities of an issuer from the holdings of a control person in connection with a debt.

## **8.2 Definition of “Securities” in Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan**

- (1) Despite section 1.2, in Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan, a reference to “securities” in this Division excludes “exchange contracts”.
- (2) [Repealed]

## **8.3 Interpretation – Exemption from underwriter registration requirement**

In this Division, an exemption from the dealer registration requirement is an exemption from the underwriter registration requirement.

## **8.4 Person or company not in the business of trading in British Columbia, Manitoba and New Brunswick**

- (1) In British Columbia and New Brunswick, a person or company is exempt from the dealer registration requirement if the person or company
  - (a) is not engaged in the business of trading in securities or exchange contracts as a principal or agent, and

- (b) does not hold himself, herself or itself out as engaging in the business of trading in securities or exchange contracts as a principal or agent.
- (2) In Manitoba, a person or company is exempt from the dealer registration requirement if the person or company
  - (a) is not engaged in the business of trading in securities as a principal or agent, and
  - (b) does not hold himself, herself or itself out as engaging in the business of trading in securities as a principal or agent.

## **8.5 Trades through or to a registered dealer**

The dealer registration requirement does not apply to a person or company in respect of a trade in a security if either of the following applies:

- (a) the trade is made through a registered dealer, if the dealer is registered in a category that permits the trade unless, in furtherance of the trade, the person or company seeking the exemption solicits or contacts directly any purchaser or prospective purchaser in relation to the trade;
- (b) the trade is made to a registered dealer who is purchasing as principal, if the dealer is registered in a category that permits the trade.

### **8.5.1 Trades through a registered dealer by registered adviser**

The dealer registration requirement does not apply to a registered adviser, or an advising representative or associate advising representative acting on behalf of the registered adviser, in respect of trading activities that are incidental to its providing advice to a client, if the trade is made through a dealer registered in a category that permits the trade or a dealer operating under an exemption from the dealer registration requirement.

## **8.6 Investment fund trades by adviser to managed account**

- (1) The dealer registration requirement does not apply to a registered adviser, or an adviser that is exempt from registration under section 8.26 [*international adviser*], in respect of a trade in a security of an investment fund if both of the following apply:
  - (a) the adviser acts as the fund's adviser and investment fund manager;
  - (b) the trade is to a managed account of a client of the adviser.

- (2) The exemption in subsection (1) is not available if the managed account or investment fund was created or is used primarily for the purpose of qualifying for the exemption.
- (3) An adviser that relies on subsection (1) must provide written notice to the regulator or, in Québec, the securities regulatory authority that it is relying on the exemption within 10 days of its first use of the exemption.

## **8.7 Investment fund reinvestment**

- (1) Subject to subsections (2), (3), (4) and (5), the dealer registration requirement does not apply to an investment fund, or the investment fund manager of the fund, in respect of a trade in a security with a security holder of the investment fund if the trade is permitted by a plan of the investment fund and is in a security of the investment fund's own issue and if any of the following apply:
  - (a) a dividend or distribution out of earnings, surplus, capital or other sources payable in respect of the investment fund's securities is applied to the purchase of the security that is of the same class or series as the securities to which the dividends or distributions are attributable;
  - (b) the security holder makes an optional cash payment to purchase the security of the investment fund and both of the following apply:
    - (i) the security is of the same class or series of securities described in paragraph (a) that trade on a marketplace;
    - (ii) the aggregate number of securities issued under the optional cash payment does not exceed, in the financial year of the investment fund during which the trade takes place, 2 per cent of the issued and outstanding securities of the class to which the plan relates as at the beginning of the financial year.
- (2) The exemption in subsection (1) is not available unless the plan that permits the trade is available to every security holder in Canada to which the dividend or distribution is available.
- (3) The exemption in subsection (1) is not available if a sales charge is payable on a trade described in the subsection.
- (4) At the time of the trade, if the investment fund is a reporting issuer and in continuous distribution, the investment fund must have set out in the prospectus under which the distribution is made

- (a) details of any deferred or contingent sales charge or redemption fee that is payable at the time of the redemption of the security, and
  - (b) any right that the security holder has to elect to receive cash instead of securities on the payment of a dividend or making of a distribution by the investment fund and instructions on how the right can be exercised.
- (5) At the time of the trade, if the investment fund is a reporting issuer and is not in continuous distribution, the investment fund must provide the information required by subsection (4) in its prospectus, annual information form or a material change report.

### **8.8 Additional investment in investment funds**

The dealer registration requirement does not apply to an investment fund, or the investment fund manager of the fund, in respect of a trade in a security of the investment fund's own issue with a security holder of the investment fund if all of the following apply:

- (a) the security holder initially acquired securities of the investment fund as principal for an acquisition cost of not less than \$150,000 paid in cash at the time of the acquisition;
- (b) the trade is in respect of a security of the same class or series as the securities initially acquired, as described in paragraph (a);
- (c) the security holder, as at the date of the trade, holds securities of the investment fund and one or both of the following apply:
  - (i) the acquisition cost of the securities being held was not less than \$150,000;
  - (ii) the net asset value of the securities being held is not less than \$150,000.

### **8.9 Additional investment in investment funds if initial purchase before September 14, 2005**

The dealer registration requirement does not apply in respect of a trade by an investment fund in a security of its own issue to a purchaser that initially acquired a security of the same class as principal before September 14, 2005 if all of the following apply:

- (a) the security was initially acquired under any of the following provisions:
  - (i) in Alberta, section 86(e) and paragraph 131(1)(d) of the *Securities Act* (Alberta) as they existed prior to their repeal by sections 9(a)



and 13 of the *Securities Amendment Act* (Alberta), 2003 SA c.32 and sections 66.2 and 122.2 of the *Alberta Securities Commission Rules* (General);

- (ii) in British Columbia, sections 45(2) (5) and (22), and 74(2) (4) and (19) of the *Securities Act* (British Columbia);
  - (iii) in Manitoba, section 19(3) and paragraph 58(1)(a) of the *Securities Act* (Manitoba) and section 90 of the *Securities Regulation* MR 491/88R;
  - (iv) in New Brunswick, section 2.8 of Local Rule 45-501 *Prospectus and Registration Exemptions*;
  - (v) in Newfoundland and Labrador, paragraphs 36(1)(e) and 73(1)(d) of the *Securities Act* (Newfoundland and Labrador);
  - (vi) in Nova Scotia, paragraphs 41(1)(e) and 77(1)(d) of the *Securities Act* (Nova Scotia);
  - (vii) in Northwest Territories, sections 3(c) and (z) of Blanket Order No. 1;
  - (viii) in Nunavut, sections 3(c) and (z) of Blanket Order No. 1;
  - (ix) in Ontario, section 35(1)5 and paragraph 72(1)(d) of the *Securities Act* (Ontario) as they existed prior to their repeal by sections 5 and 11 of the *Securities Act* (Ontario) S.O. 2009, c. 18, Sch. 26 and section 2.12 of Ontario Securities Commission Rule 45-501 *Exempt Distributions* that came into force on January 12, 2004;
  - (x) in Prince Edward Island, paragraph 2(3)(d) of the former *Securities Act* (Prince Edward Island) and Prince Edward Island Local Rule 45-512 *Exempt Distributions - Exemption for Purchase of Mutual Fund Securities*;
  - (xi) in Québec, former section 51 and subsection 155.1(2) of the *Securities Act* (Québec);
  - (xii) in Saskatchewan, paragraphs 39(1)(e) and 81(1)(d) of *The Securities Act, 1988* (Saskatchewan);
- (b) the trade is for a security of the same class or series as the initial trade;

- (c) the security holder, as at the date of the trade, holds securities of the investment fund that have one or both of the following characteristics:
  - (i) an acquisition cost of not less than the minimum amount prescribed by securities legislation referred to in paragraph (a) under which the initial trade was conducted;
  - (ii) a net asset value of not less than the minimum amount prescribed by securities legislation referred to in paragraph (a) under which the initial trade was conducted.

### **8.10 Private investment club**

The dealer registration requirement does not apply in respect of a trade in a security of an investment fund if all of the following apply:

- (a) the fund has no more than 50 beneficial security holders;
- (b) the fund does not seek and has never sought to borrow money from the public;
- (c) the fund does not distribute and has never distributed its securities to the public;
- (d) the fund does not pay or give any remuneration for investment management or administration advice in respect of trades in securities, except normal brokerage fees;
- (e) the fund, for the purpose of financing its operations, requires security holders to make contributions in proportion to the value of the securities held by them.

### **8.11 Private investment fund – Loan and trust pools**

- (1) The dealer registration requirement does not apply in respect of a trade in a security of an investment fund if all of the following apply:
  - (a) the fund is administered by a trust company or trust corporation that is registered or authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction of Canada;
  - (b) the fund has no promoter or investment fund manager other than the trust company or trust corporation referred to in paragraph (a);
  - (c) the fund commingles the money of different estates and trusts for the purpose of facilitating investment.

- (2) Despite subsection (1), a trust company or trust corporation registered under the laws of Prince Edward Island that is not registered under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in another jurisdiction of Canada is not a trust company or trust corporation for the purpose of paragraph (1)(a).

## **8.12 Mortgages**

- (1) In this section, “syndicated mortgage” means a mortgage in which two or more persons or companies participate, directly or indirectly, as lenders in the debt obligation that is secured by the mortgage.
- (2) Subject to subsection (3), the dealer registration requirement does not apply in respect of a trade in a mortgage on real property in a jurisdiction of Canada by a person or company who is registered or licensed, or exempted from registration or licensing, under mortgage brokerage or mortgage dealer legislation of that jurisdiction.
- (3) In Alberta, British Columbia, Manitoba, New Brunswick, Québec and Saskatchewan, subsection (2) does not apply in respect of a trade in a syndicated mortgage.
- (4) This section does not apply in Ontario.

Note: In Ontario a similar exemption from the dealer registration requirement is provided under subsection 35(4) of the <i>Securities Act</i> (Ontario).
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## **8.13 Personal property security legislation**

- (1) The dealer registration requirement does not apply in respect of a trade to a person or company, other than an individual in a security evidencing indebtedness secured by or under a security agreement, secured in accordance with personal property security legislation of a jurisdiction of Canada that provides for the granting of security in personal property.
- (2) This section does not apply in Ontario.

Note: In Ontario a similar exemption from the dealer registration requirement is provided under subsection 35(2) of the <i>Securities Act</i> (Ontario).
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## **8.14 Variable insurance contract**

- (1) In this section

“contract”, “group insurance”, “insurance company”, “life insurance” and “policy” have the respective meanings assigned to them in the legislation referenced opposite the name of the local jurisdiction in Appendix A of National Instrument 45-106 *Prospectus Exemptions*;

“variable insurance contract” means a contract of life insurance under which the interest of the purchaser is valued for purposes of conversion or surrender by reference to the value of a proportionate interest in a specified portfolio of assets.

- (2) The dealer registration requirement does not apply in respect of a trade in a variable insurance contract by an insurance company if the variable insurance contract is
  - (a) a contract of group insurance,
  - (b) a whole life insurance contract providing for the payment at maturity of an amount not less than 75% of the premium paid up to age 75 years for a benefit payable at maturity,
  - (c) an arrangement for the investment of policy dividends and policy proceeds in a separate and distinct fund to which contributions are made only from policy dividends and policy proceeds, or
  - (d) a variable life annuity.

### **8.15 Schedule III banks and cooperative associations – Evidence of deposit**

- (1) The dealer registration requirement does not apply in respect of a trade in an evidence of deposit issued by a Schedule III bank or an association governed by the *Cooperative Credit Associations Act* (Canada).
- (2) This section does not apply in Ontario or Alberta.

Note: In Ontario, subsection 8.15(1) is not required because the security described in the exemption is excluded from the definition of “security” in subsection 1(1) of the <i>Securities Act</i> (Ontario).
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### **8.16 Plan administrator**

- (1) In this section

“consultant” has the same meaning as in section 2.22 of National Instrument 45-106 *Prospectus Exemptions*;

“executive officer” has the same meaning as in section 1.1 of National Instrument 45-106 *Prospectus Exemptions*;

“permitted assign” has the same meaning as in section 2.22 of National Instrument 45-106 *Prospectus Exemptions*;

“plan” means a plan or program established or maintained by an issuer providing for the acquisition of securities of the issuer by employees, executive officers, directors or consultants of the issuer or of a related entity of the issuer;

“plan administrator” means a trustee, custodian, or administrator, acting on behalf of, or for the benefit of, employees, executive officers, directors or consultants of an issuer or of a related entity of an issuer;

“related entity” has the same meaning as in section 2.22 of National Instrument 45-106 *Prospectus Exemptions*.

- (2) The dealer registration requirement does not apply in respect of a trade made pursuant to a plan of the issuer in a security of an issuer, or an option to acquire a security of the issuer, made by the issuer, a control person of the issuer, a related entity of the issuer, or a plan administrator of the issuer with any of the following:
  - (a) the issuer;
  - (b) a current or former employee, executive officer, director or consultant of the issuer or a related entity of the issuer;
  - (c) a permitted assign of a person or company referred to in paragraph (b).
- (3) The dealer registration requirement does not apply in respect of a trade in a security of an issuer, or an option to acquire a security of the issuer, made by a plan administrator of the issuer if
  - (a) the trade is pursuant to a plan of the issuer, and
  - (b) the conditions in section 2.14 of National Instrument 45-102 *Resale of Securities* are satisfied.

## **8.17 Reinvestment plan**

- (1) Subject to subsections (3), (4) and (5), the dealer registration requirement does not apply in respect of the following trades by an issuer, or by a trustee, custodian or administrator acting for or on behalf of the issuer, to a security holder of the issuer if the trades are permitted by a plan of the issuer:
  - (a) a trade in a security of the issuer’s own issue if a dividend or distribution out of earnings, surplus, capital or other sources payable in respect of the issuer’s securities is applied to the purchase of the security;

- (b) subject to subsection (2), a trade in a security of the issuer's own issue if the security holder makes an optional cash payment to purchase the security of the issuer that trades on a marketplace.
- (2) The aggregate number of securities issued under the optional cash payment referred to in paragraph (1)(b) must not exceed, in any financial year of the issuer during which the trade takes place, 2% of the issued and outstanding securities of the class to which the plan relates as at the beginning of the financial year.
- (3) A plan that permits the trades described in subsection (1) must be available to every security holder in Canada to which the dividend or distribution out of earnings, surplus, capital or other sources is available.
- (4) This section is not available in respect of a trade in a security of an investment fund.
- (5) Subject to section 8.4 [*transition – reinvestment plan*] of National Instrument 45-106 *Prospectus Exemptions*, if the security traded under a plan described in subsection (1) is of a different class or series than the class or series of the security to which the dividend or distribution is attributable, the issuer or the trustee, custodian or administrator must have provided to each participant that is eligible to receive a security under the plan either a description of the material attributes and characteristics of the security traded under the plan or notice of a source from which the participant can obtain the information without charge.

## **8.18 International dealer**

- (1) In this section  
“foreign security” means
  - (a) a security issued by an issuer incorporated, formed or created under the laws of a foreign jurisdiction, or
  - (b) a security issued by a government of a foreign jurisdiction.
- (2) Subject to subsections (3) and (4), the dealer registration requirement does not apply in respect of any of the following:
  - (a) an activity, other than a sale of a security, that is reasonably necessary to facilitate a distribution of securities that are offered primarily in a foreign jurisdiction;
  - (b) a trade in a debt security with a permitted client during the security's distribution, if the debt security is offered primarily in a foreign jurisdiction

and a prospectus has not been filed with a Canadian securities regulatory authority for the distribution;

- (c) a trade in a debt security that is a foreign security with a permitted client, other than during the security's distribution;
  - (d) a trade in a foreign security with a permitted client, unless the trade is made during the security's distribution under a prospectus that has been filed with a Canadian securities regulatory authority;
  - (e) a trade in a foreign security with an investment dealer;
  - (f) a trade in any security with an investment dealer that is purchasing as principal.
- (3) The exemption under subsection (2) is not available to a person or company unless all of the following apply:
- (a) the head office or principal place of business of the person or company is in a foreign jurisdiction;
  - (b) the person or company is registered under the securities legislation of the foreign jurisdiction in which its head office or principal place of business is located in a category of registration that permits it to carry on the activities in that jurisdiction that registration as a dealer would permit it to carry on in the local jurisdiction;
  - (c) the person or company engages in the business of a dealer in the foreign jurisdiction in which its head office or principal place of business is located;
  - (d) the person or company is trading as principal or agent for
    - (i) the issuer of the securities,
    - (ii) a permitted client, or
    - (iii) a person or company that is not a resident of Canada;
  - (e) the person or company has submitted to the securities regulatory authority a completed Form 31-103F2 *Submission to Jurisdiction and Appointment of Agent for Service*.

- (4) The exemption under subsection (2) is not available to a person or company in respect of a trade with a permitted client unless one of the following applies:
- (a) the permitted client is a person or company registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer;
  - (b) the person or company has notified the permitted client of all of the following:
    - (i) the person or company is not registered in the local jurisdiction to make the trade;
    - (ii) the foreign jurisdiction in which the head office or principal place of business of the person or company is located;
    - (iii) all or substantially all of the assets of the person or company may be situated outside of Canada;
    - (iv) there may be difficulty enforcing legal rights against the person or company because of the above;
    - (v) the name and address of the agent for service of process of the person or company in the local jurisdiction.
- (5) A person or company that relied on the exemption in subsection (2) during the 12-month period preceding December 1 of a year must notify the regulator, or in Québec, the securities regulatory authority of that fact by December 1 of that year.
- (6) In Ontario, subsection (5) does not apply to a person or company that complies with the filing and fee payment requirements applicable to an unregistered exempt international firm under Ontario Securities Commission Rule 13-502 *Fees*.
- (7) The adviser registration requirement does not apply to a person or company that is exempt from the dealer registration requirement under this section if the person or company provides advice to a client and the advice is
- (a) in connection with an activity or trade described under subsection (2), and
  - (b) not in respect of a managed account of the client.

#### **8.19 Self-directed registered education savings plan**

- (1) In this section

"self-directed RESP" means an educational savings plan registered under the



*Income Tax Act* (Canada)

- (a) that is structured so that contributions by a subscriber to the plan are deposited directly into an account in the name of the subscriber, and
  - (b) under which the subscriber maintains control and direction over the plan that enables the subscriber to direct how the assets of the plan are to be held, invested or reinvested subject to compliance with the *Income Tax Act* (Canada).
- (2) The dealer registration requirement does not apply in respect of a trade in a self-directed RESP to a subscriber if both of the following apply:
- (a) the trade is made by any of the following:
    - (i) a dealing representative of a mutual fund dealer who is acting on behalf of the mutual fund dealer in respect of securities listed in paragraph 7.1(2)(b);
    - (ii) a Canadian financial institution;
    - (iii) in Ontario, a financial intermediary;
  - (b) the self-directed RESP restricts its investments in securities to securities in which the person or company who trades the self-directed RESP is permitted to trade.

**8.20 Exchange contract – Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan**

- (1) In Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan, the dealer registration requirement does not apply to a person or company in respect of a trade in an exchange contract by the person or company if one of the following applies:
- (a) the trade is made through a registered dealer, if the dealer is registered in a category that permits the trade unless, in furtherance of the trade, the person or company seeking the exemption solicits or contacts directly any purchaser or prospective purchaser in relation to the trade;
  - (b) the trade is made to a registered dealer who is purchasing as principal, if the dealer is registered in a category that permits the trade.

(1.1) [Repealed]

- (2) [Repealed]
- (3) [Repealed]

### **8.20.1 Exchange contract trades through or to a registered dealer - Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan**

- (1) In Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan, the dealer registration requirement does not apply to a registered adviser, or an advising representative or associate advising representative acting on behalf of the registered adviser, in respect of trading activities related to exchange contracts that are incidental to its providing advice to a client, if the trade is made through a dealer registered in a category that permits the trade or a dealer operating under an exemption from the dealer registration requirement.

- (1.1) [Repealed]

### **8.21 Specified debt**

- (1) In this section

“permitted supranational agency” means any of the following:

- (a) the African Development Bank, established by the Agreement Establishing the African Development Bank which came into force on September 10, 1964, that Canada became a member of on December 30, 1982;
- (b) the Asian Development Bank, established under a resolution adopted by the United Nations Economic and Social Commission for Asia and the Pacific in 1965;
- (c) the Caribbean Development Bank, established by the Agreement Establishing the Caribbean Development Bank which came into force on January 26, 1970, as amended, that Canada is a founding member of;
- (d) the European Bank for Reconstruction and Development, established by the Agreement Establishing the European Bank for Reconstruction and Development and approved by the *European Bank for Reconstruction and Development Agreement Act* (Canada), that Canada is a founding member of;
- (e) the Inter-American Development Bank, established by the Agreement establishing the Inter-American Development Bank which became effective December 30, 1959, as amended from time to time, that Canada is a member of;

- (f) the International Bank for Reconstruction and Development, established by the Agreement for an International Bank for Reconstruction and Development approved by the *Bretton Woods and Related Agreements Act* (Canada);
  - (g) the International Finance Corporation, established by Articles of Agreement approved by the *Bretton Woods and Related Agreements Act* (Canada).
- (2) The dealer registration requirement does not apply in respect of a trade in any of the following:
- (a) a debt security issued by or guaranteed by the Government of Canada or the government of a jurisdiction of Canada;
  - (b) a debt security issued by or guaranteed by a government of a foreign jurisdiction if the debt security has a designated rating from a designated rating organization or its DRO affiliate;
  - (c) a debt security issued by or guaranteed by a municipal corporation in Canada;
  - (d) a debt security secured by or payable out of rates or taxes levied under the law of a jurisdiction of Canada on property in the jurisdiction and collectible by or through the municipality in which the property is situated;
  - (e) a debt security issued by or guaranteed by a Canadian financial institution or a Schedule III bank, other than debt securities that are subordinate in right of payment to deposits held by the issuer or guarantor of those debt securities;
  - (f) a debt security issued by the Comité de gestion de la taxe scolaire de l'île de Montréal;
  - (g) a debt security issued by or guaranteed by a permitted supranational agency if the debt securities are payable in the currency of Canada or the United States of America.
- (3) Paragraphs (2)(a), (c) and (d) do not apply in Ontario.

Note: In Ontario, exemptions from the dealer registration requirement similar to those in paragraphs 8.21(a), (c) and (d) are provided under paragraph 2 of subsection 35(1) of the *Securities Act* (Ontario).

## 8.22 Small security holder selling and purchase arrangements

(1) In this section

“exchange” means

- (a) TSX Inc.,
- (b) TSX Venture Exchange Inc., or
- (c) an exchange that
  - (i) has a policy that is substantially similar to the policy of the TSX Inc., and
  - (ii) is designated by the securities regulatory authority for the purpose of this section;

“policy” means,

- (a) in the case of TSX Inc., sections 638 and 639 [*Odd lot selling and purchase arrangements*] of the TSX Company Manual, as amended from time to time,
  - (b) in the case of the TSX Venture Exchange Inc., Policy 5.7 Small Shareholder Selling and Purchase Arrangements, as amended from time to time, or
  - (c) in the case of an exchange referred to in paragraph (c) of the definition of “exchange”, the rule, policy or other similar instrument of the exchange on small shareholder selling and purchase arrangements.
- (2) The dealer registration requirement does not apply in respect of a trade by an issuer or its agent, in securities of the issuer that are listed on an exchange, if all of the following apply:
- (a) the trade is an act in furtherance of participation by the holders of the securities in an arrangement that is in accordance with the policy of that exchange;
  - (b) the issuer and its agent do not provide advice to a security holder about the security holder’s participation in the arrangement referred to in paragraph (a), other than a description of the arrangement’s operation, procedures for participation in the arrangement, or both;

- (c) the trade is made in accordance with the policy of that exchange, without resort to an exemption from, or variation of, the significant subject matter of the policy;
  - (d) at the time of the trade after giving effect to a purchase under the arrangement, the market value of the maximum number of securities that a security holder is permitted to hold in order to be eligible to participate in the arrangement is not more than \$25,000.
- (3) For the purposes of paragraph (2)(c), an exemption from, or variation of, the maximum number of securities that a security holder is permitted to hold under a policy in order to be eligible to participate in the arrangement provided for in the policy is not an exemption from, or variation of, the significant subject matter of the policy.

### **8.22.1 Short-term debt**

- (1) In this section, “short-term debt instrument” means a negotiable promissory note or commercial paper maturing not more than one year from the date of issue.
- (2) Except in Ontario, the dealer registration requirement does not apply to any of the following in respect of a trade in a short-term debt instrument with a permitted client:
  - (a) a bank listed in Schedule I, II or III to the *Bank Act* (Canada);
  - (b) an association to which the *Cooperative Credit Associations Act* (Canada) applies or a central cooperative credit society for which an order has been made under subsection 473 (1) of that Act;
  - (c) a loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services cooperative or credit union league or federation that is authorized by a statute of Canada or of a jurisdiction in Canada to carry on business in Canada or in any jurisdiction in Canada, as the case may be;
  - (d) the Business Development Bank of Canada;
- (3) The exemption under subsection (2) is not available to a person or company if the short-term debt instrument is convertible or exchangeable into, or accompanied by a right to purchase, another security other than another short-term debt instrument.

*Division 2 Exemptions from adviser registration*

**8.22.2 General condition to adviser registration requirement exemptions**

The exemptions in this Division are not available to a person or company if the person or company is registered in the local jurisdiction in a category of registration that permits the person or company to act as an adviser in respect of the activities for which the exemption is provided.

**8.23 Dealer without discretionary authority**

The adviser registration requirement does not apply to a registered dealer, or a dealing representative acting on behalf of the dealer, that provides advice to a client if the advice is

- (a) in connection with a trade in a security that the dealer and the representative are permitted to make under his, her or its registration,
- (b) provided by the representative, and
- (c) not in respect of a managed account of the client.

**8.24 IIROC members with discretionary authority**

The adviser registration requirement does not apply to a registered dealer, or a dealing representative acting on behalf of the dealer, that acts as an adviser in respect of a client's managed account if the registered dealer is a member of IIROC and the advising activities are conducted in accordance with the rules of IIROC.

**8.25 Advising generally**

- (1) For the purposes of subsections (3) and (4), "financial or other interest" includes the following:
  - (a) ownership, beneficial or otherwise, in the security or in another security issued by the same issuer;
  - (b) an option in respect of the security or another security issued by the same issuer;
  - (c) a commission or other compensation received, or expected to be received, from any person or company in connection with the trade in the security;

- (d) a financial arrangement regarding the security with any person or company;
  - (e) a financial arrangement with any underwriter or other person or company who has any interest in the security.
- (2) The adviser registration requirement does not apply to a person or company that acts as an adviser if the advice the person or company provides does not purport to be tailored to the needs of the person or company receiving the advice.
- (3) If a person or company that is exempt under subsection (2) recommends buying, selling or holding a specified security, a class of securities or the securities of a class of issuers in which any of the following has a financial or other interest, the person or company must disclose the interest concurrently with providing the advice:
- (a) the person or company;
  - (b) any partner, director or officer of the person or company;
  - (c) any other person or company that would be an insider of the first-mentioned person or company if the first-mentioned person or company were a reporting issuer.
- (4) If the financial or other interest of the person or company includes an interest in an option described in paragraph (b) of the definition of “financial or other interest” in subsection (1), the disclosure required by subsection (3) must include a description of the terms of the option.
- (5) This section does not apply in Ontario.

Note: In Ontario, measures similar to those in section 8.25 are in section 34 of the <i>Securities Act</i> (Ontario).
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## **8.26 International adviser**

- (1) Despite section 1.2, in Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan, a reference to “securities” in this section excludes “exchange contracts”.
- (1.1) [Repealed]
- (2) In this section
- “aggregate consolidated gross revenue” does not include the gross revenue of an affiliate of the adviser if the affiliate is registered in a jurisdiction of Canada;

“foreign security” means

- (a) a security issued by an issuer incorporated, formed or created under the laws of a foreign jurisdiction, and
  - (b) a security issued by a government of a foreign jurisdiction;
- (3) The adviser registration requirement does not apply to a person or company in respect of its acting as an adviser to a permitted client, other than a permitted client that is person or company registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer, if the adviser does not advise that client on securities of Canadian issuers, unless providing that advice is incidental to its providing advice on a foreign security.
- (4) The exemption under subsection (3) is not available unless all of the following apply:
- (a) the adviser’s head office or principal place of business is in a foreign jurisdiction;
  - (b) the adviser is registered in a category of registration, or operates under an exemption from registration, under the securities legislation of the foreign jurisdiction in which its head office or principal place of business is located, that permits it to carry on the activities in that jurisdiction that registration as an adviser would permit it to carry on in the local jurisdiction;
  - (c) the adviser engages in the business of an adviser in the foreign jurisdiction in which its head office or principal place of business is located;
  - (d) as at the end of its most recently completed financial year, not more than 10% of the aggregate consolidated gross revenue of the adviser, its affiliates and its affiliated partnerships was derived from the portfolio management activities of the adviser, its affiliates and its affiliated partnerships in Canada;
  - (e) before advising a client, the adviser notifies the client of all of the following:
    - (i) the adviser is not registered in the local jurisdiction to provide the advice described under subsection (3);
    - (ii) the foreign jurisdiction in which the adviser’s head office or principal place of business is located;



- (iii) all or substantially all of the adviser's assets may be situated outside of Canada;
  - (iv) there may be difficulty enforcing legal rights against the adviser because of the above;
  - (v) the name and address of the adviser's agent for service of process in the local jurisdiction;
  - (f) the adviser has submitted to the securities regulatory authority a completed Form 31-103F2 *Submission to Jurisdiction and Appointment of Agent for Service*.
- (5) A person or company that relied on the exemption in subsection (3) during the 12 month period preceding December 1 of a year must notify the regulator, or, in Québec, the securities regulatory authority of that fact by December 1 of that year.
- (6) In Ontario, subsection (5) does not apply to a person or company that complies with the filing and fee payment requirements applicable to an unregistered exempt international firm under Ontario Securities Commission Rule 13-502 *Fees*.

#### **8.26.1 International sub-adviser**

- (1) The adviser registration requirement does not apply to a sub-adviser if all of the following apply:
- (a) the obligations and duties of the sub-adviser are set out in a written agreement with the registered adviser or registered dealer;
  - (b) the registered adviser or registered dealer has entered into a written agreement with its clients on whose behalf investment advice is or portfolio management services are to be provided, agreeing to be responsible for any loss that arises out of the failure of the sub-adviser
    - (i) to exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of the registrant and each client of the registrant for whose benefit the advice is or portfolio management services are to be provided, or
    - (ii) to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

- (2) The exemption under subsection (1) is not available unless all of the following apply:
- (a) the sub-adviser's head office or principal place of business is in a foreign jurisdiction;
  - (b) the sub-adviser is registered in a category of registration, or operates under an exemption from registration, under the securities legislation of the foreign jurisdiction in which its head office or principal place of business is located, that permits it to carry on the activities in that jurisdiction that registration as an adviser would permit it to carry on in the local jurisdiction;
  - (c) the sub-adviser engages in the business of an adviser in the foreign jurisdiction in which its head office or principal place of business is located.

*Division 3 Exemptions from investment fund manager registration*

**8.26.2 General condition to investment fund manager registration requirement exemptions**

The exemptions in this Division are not available to a person or company if the person or company is registered in the local jurisdiction as an investment fund manager.

**8.27 Private investment club**

The investment fund manager registration requirement does not apply to a person or company in respect of its acting as an investment fund manager for an investment fund if all of the following apply:

- (a) the fund has no more than 50 beneficial security holders;
- (b) the fund does not seek and has never sought to borrow money from the public;
- (c) the fund does not distribute and has never distributed its securities to the public;
- (d) the fund does not pay or give any remuneration for investment management or administration advice in respect of trades in securities, except normal brokerage fees;
- (e) the fund, for the purpose of financing its operations, requires security holders to make contributions in proportion to the value of the securities held by them.

## 8.28 Capital accumulation plan

- (1) In this section

“capital accumulation plan” means a tax assisted investment or savings plan, including a defined contribution registered pension plan, a group registered retirement savings plan, a group registered education savings plan, or a deferred profit-sharing plan, that permits a plan member to make investment decisions among two or more investment options offered within the plan, and in Québec and Manitoba, includes a simplified pension plan;

“plan member” means a person that has assets in a capital accumulation plan;

“plan sponsor” means an employer, trustee, trade union or association or a combination of them that establishes a capital accumulation plan, and includes a plan service provider to the extent that the plan sponsor has delegated its responsibilities to the plan service provider; and

“plan service provider” means a person that provides services to a plan sponsor to design, establish, or operate a capital accumulation plan.

- (2) The investment fund manager registration requirement does not apply to a plan sponsor or their plan service provider in respect of activities related to a capital accumulation plan.

## 8.29 Private investment fund – Loan and trust pools

- (1) The investment fund manager registration requirement does not apply to a trust company or trust corporation that administers an investment fund if all of the following apply:
- (a) the trust company or trust corporation is registered or authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction of Canada;
  - (b) the fund has no promoter or investment fund manager other than the trust company or trust corporation;
  - (c) the fund commingles the money of different estates and trusts for the purpose of facilitating investment.
- (2) The exemption in subsection (1) is not available to a trust company or trust corporation registered under the laws of Prince Edward Island unless it is also registered under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in another jurisdiction of Canada.

- (3) This section does not apply in Ontario.

Note: In Ontario, subsection 35.1 of the *Securities Act* (Ontario) provides a general exemption from the registration requirement for trust companies, trust corporations and other specified financial institutions.

*Division 4*      *Mobility exemption – Firms*

**8.30 Client mobility exemption – Firms**

The dealer registration requirement and the adviser registration requirement do not apply to a person or company if all of the following apply:

- (a) the person or company is registered as a dealer or adviser in its principal jurisdiction;
- (b) the person or company does not act as a dealer, underwriter or adviser in the local jurisdiction other than as it is permitted to in its principal jurisdiction according to its registration;
- (c) the person or company does not act as a dealer, underwriter or adviser in the local jurisdiction other than in respect of 10 or fewer eligible clients;
- (d) the person or company complies with Parts 13 *Dealing with clients – individuals and firms* and 14 *Handling client accounts – firms*;
- (e) the person or company deals fairly, honestly and in good faith in the course of its dealings with an eligible client.

**PART 9 - MEMBERSHIP IN A SELF-REGULATORY ORGANIZATION**

**9.1 IIROC membership for investment dealers**

An investment dealer must not act as a dealer unless the investment dealer is a “dealer member”, as defined under the rules of IIROC.

**9.2 MFDA membership for mutual fund dealers**

Except in Québec, a mutual fund dealer must not act as a dealer unless the mutual fund dealer is a “member”, as defined under the rules of the MFDA.

**9.3 Exemptions from certain requirements for IIROC members**

- (1) Unless it is also registered as an investment fund manager, a registered firm that is a member of IIROC is exempt from the following requirements:

- (a) section 12.1 [*capital requirements*];
  - (b) section 12.2 [*subordination agreement*];
  - (c) section 12.3 [*insurance – dealer*];
  - (d) section 12.6 [*global bonding or insurance*];
  - (e) section 12.7 [*notifying the regulator of a change, claim or cancellation*];
  - (f) section 12.10 [*annual financial statements*];
  - (g) section 12.11 [*interim financial information*];
  - (h) section 12.12 [*delivering financial information – dealer*];
  - (i) subsection 13.2(3) [*know your client*];
  - (j) section 13.3 [*suitability*];
  - (k) section 13.12 [*restriction on lending to clients*];
  - (l) section 13.13 [*disclosure when recommending the use of borrowed money*];
  - (1.1) section 13.15 [*handling complaints*];
  - (m) subsection 14.2(2) [*relationship disclosure information*];
  - (n) section 14.6 [*holding client assets in trust*];
  - (o) section 14.8 [*securities subject to a safekeeping agreement*];
  - (p) section 14.9 [*securities not subject to a safekeeping agreement*];
  - (q) section 14.12 [*content and delivery of trade confirmation*].
- (1.1) Subsection (1) only applies to a registered firm in respect of a requirement specified in any of paragraphs (1)(a) to (q) if the registered firm complies with the corresponding IIROC provisions that are in effect.
- (2) If a registered firm is a member of IIROC and is registered as an investment fund manager, the firm is exempt from the following requirements:
- (a) section 12.3 [*insurance – dealer*];
  - (b) section 12.6 [*global bonding or insurance*];

- (c) section 12.12 [*delivering financial information – dealer*];
  - (d) subsection 13.2(3) [*know your client*];
  - (e) section 13.3 [*suitability*];
  - (f) section 13.12 [*restriction on lending to clients*];
  - (g) section 13.13 [*disclosure when recommending the use of borrowed money*];
  - (h) section 13.15 [*handling complaints*];
  - (i) subsection 14.2(2) [*relationship disclosure information*];
  - (j) section 14.6 [*holding client assets in trust*];
  - (k) section 14.8 [*securities subject to a safekeeping agreement*];
  - (l) section 14.9 [*securities not subject to a safekeeping agreement*];
  - (m) section 14.12 [*content and delivery of trade confirmation*].
- (2.1) Subsection (2) only applies to a registered firm in respect of a requirement specified in any of paragraphs (2)(a) to (m) if the registered firm complies with the corresponding IROC provisions that are in effect.
- (3) [Repealed]
- (4) [Repealed]
- (5) [Repealed]
- (6) [Repealed]

#### **9.4 Exemptions from certain requirements for MFDA members**

- (1) Unless it is also registered as an exempt market dealer, a scholarship plan dealer or an investment fund manager, a registered firm that is a member of the MFDA is exempt from the following requirements:
- (a) section 12.1 [*capital requirements*];
  - (b) section 12.2 [*subordination agreement*];
  - (c) section 12.3 [*insurance – dealer*];

- (d) section 12.6 [*global bonding or insurance*];
  - (e) section 12.7 [*notifying the regulator of a change, claim or cancellation*];
  - (f) section 12.10 [*annual financial statements*];
  - (g) section 12.11 [*interim financial information*];
  - (h) section 12.12 [*delivering financial information – dealer*];
  - (i) section 13.3 [*suitability*];
  - (j) section 13.12 [*restriction on lending to clients*];
  - (k) section 13.13 [*disclosure when recommending the use of borrowed money*];
  - (l) section 13.15 [*handling complaints*];
  - (m) subsection 14.2(2) [*relationship disclosure information*];
  - (n) section 14.6 [*holding client assets in trust*];
  - (o) section 14.8 [*securities subject to a safekeeping agreement*];
  - (p) section 14.9 [*securities not subject to a safekeeping agreement*];
  - (q) section 14.12 [*content and delivery of trade confirmation*].
- (1.1) Subsection (1) only applies to a registered firm in respect of a requirement specified in any of paragraphs (1)(a) to (q) if the registered firm complies with the corresponding MFDA provisions that are in effect
- (2) If a registered firm is a member of the MFDA and is registered as an exempt market dealer, scholarship plan dealer or investment fund manager, the firm is exempt from the following requirements:
- (a) section 12.3 [*insurance – dealer*];
  - (b) section 12.6 [*global bonding or insurance*];
  - (c) section 13.3 [*suitability*];
  - (d) section 13.12 [*restriction on lending to clients*];
  - (e) section 13.13 [*disclosure when recommending the use of borrowed money*];

- (f) section 13.15 [*handling complaints*];
  - (g) subsection 14.2(2) [*relationship disclosure information*];
  - (h) section 14.6 [*holding client assets in trust*];
  - (i) section 14.8 [*securities subject to a safekeeping agreement*];
  - (j) section 14.9 [*securities not subject to a safekeeping agreement*];
  - (k) section 14.12 [*content and delivery of trade confirmation*].
- (2.1) Subsection (2) only applies to a registered firm in respect of a requirement specified in any of paragraphs (2)(a) to (k) if the registered firm complies with the corresponding MFDA provisions that are in effect.
- (3) Subsections (1) and (2) do not apply in Québec.
- (4) In Québec, the requirements listed in subsection (1) do not apply to a mutual fund dealer to the extent equivalent requirements to those listed in subsection (1) are applicable to the mutual fund dealer under the regulations in Québec.

## **PART 10 - SUSPENSION AND REVOCATION OF REGISTRATION – FIRMS**

### *Division 1 When a firm's registration is suspended*

#### **10.1 Failure to pay fees**

- (1) In this section, “annual fees” means
- (a) in Alberta, the fees required under section 5 of ASC Rule 13-501 *Fees*,
  - (b) in British Columbia, the annual fees required under section 22 of the Securities Regulation, B.C. Reg. 196/97,
  - (c) in Manitoba, the fees required under paragraph 1.(2)(a) of the *Manitoba Fee Regulation*, M.R 491\88R,
  - (d) in New Brunswick, the fees required under section 2.2 (c) of Local Rule 11-501 *Fees*,
  - (e) in Newfoundland and Labrador, the fees required under section 143 of the *Securities Act*,
  - (f) in Nova Scotia, the fees required under Part XIV of the Regulations,



- (g) in Northwest Territories, the fees required under sections 1(c) and 1(e) of the Securities Fee regulations, R-066-2008;
  - (h) in Nunavut, the fees required under section 1(a) of the Schedule to R-003-2003 to the Securities Fee regulation, R.R.N.W.T. 1990, c.20,
  - (i) in Prince Edward Island, the fees required under section 175 of the *Securities Act* R.S.P.E.I., Cap. S-3.1,
  - (j) in Québec, the fees required under section 271.5 of the Québec Securities Regulation,
  - (k) in Saskatchewan, the annual registration fees required under section 176 of The Securities Regulations (Saskatchewan), and
  - (l) in Yukon, the fees required under O.I.C. 2009\66, pursuant to section 168 of the *Securities Act*.
- (2) If a registered firm has not paid the annual fees by the 30th day after the date the annual fees were due, the registration of the firm is suspended until reinstated or revoked under securities legislation.

## **10.2 If IIROC membership is revoked or suspended**

If IIROC revokes or suspends a registered firm's membership, the firm's registration in the category of investment dealer is suspended until reinstated or revoked under securities legislation.

## **10.3 If MFDA membership is revoked or suspended**

Except in Québec, if the MFDA revokes or suspends a registered firm's membership, the firm's registration in the category of mutual fund dealer is suspended until reinstated or revoked under securities legislation.

## **10.4 Activities not permitted while a firm's registration is suspended**

If a registered firm's registration in a category is suspended, the firm must not act as a dealer, an underwriter, an adviser, or an investment fund manager, as the case may be, under that category.

### *Division 2 Revoking a firm's registration*

## **10.5 Revocation of a suspended registration – Firm**

If a registration has been suspended under this Part and it has not been reinstated, the registration is revoked on the 2<sup>nd</sup> anniversary of the suspension.

## **10.6 Exception for firms involved in a hearing or proceeding**

Despite section 10.5, if a hearing or proceeding concerning a suspended registrant is commenced under securities legislation or under the rules of an SRO, the registrant's registration remains suspended.

## **10.7 Application of Part 10 in Ontario**

Other than section 10.4 [*activities not permitted while a firm's registration is suspended*], this Part does not apply in Ontario.

Note: In Ontario, measures governing suspension in section 29 of the *Securities Act* (Ontario) are similar to those in Parts 6 and 10.

# **PART 11 - INTERNAL CONTROLS AND SYSTEMS**

## *Division 1 Compliance*

### **11.1 Compliance system**

A registered firm must establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to

- (a) provide reasonable assurance that the firm and each individual acting on its behalf complies with securities legislation, and
- (b) manage the risks associated with its business in accordance with prudent business practices.

### **11.2 Designating an ultimate designated person**

- (1) A registered firm must designate an individual who is registered under securities legislation in the category of ultimate designated person to perform the functions described in section 5.1 [*responsibilities of the ultimate designated person*].
- (2) A registered firm must designate an individual under subsection (1) who is one of the following:
  - (a) the chief executive officer of the registered firm or, if the firm does not have a chief executive officer, an individual acting in a capacity similar to a chief executive officer;
  - (b) the sole proprietor of the registered firm;

- (c) the officer in charge of a division of the registered firm, if the activity that requires the firm to register occurs only within the division and the firm has significant other business activities.
- (3) If an individual who is registered as a registered firm's ultimate designated person ceases to meet any of the conditions listed in subsection (2), the registered firm must designate another individual to act as its ultimate designated person.

### **11.3 Designating a chief compliance officer**

- (1) A registered firm must designate an individual who is registered under securities legislation in the category of chief compliance officer to perform the functions described in section 5.2 [*responsibilities of the chief compliance officer*].
- (2) A registered firm must not designate an individual to act as the firm's chief compliance officer unless the individual has satisfied the applicable conditions in Part 3 *Registration requirements – individuals* and the individual is one of the following:
  - (a) an officer or partner of the registered firm;
  - (b) the sole proprietor of the registered firm.
- (3) If an individual who is registered as a registered firm's chief compliance officer ceases to meet any of the conditions listed in subsection (2), the registered firm must designate another individual to act as its chief compliance officer.

### **11.4 Providing access to the board of directors**

A registered firm must permit its ultimate designated person and its chief compliance officer to directly access the firm's board of directors, or individuals acting in a similar capacity for the firm, at such times as the ultimate designated person or the chief compliance officer may consider necessary or advisable in view of his or her responsibilities.

*Division 2 Books and records*

### **11.5 General requirements for records**

- (1) A registered firm must maintain records to
  - (a) accurately record its business activities, financial affairs, and client transactions, and
  - (b) demonstrate the extent of the firm's compliance with applicable requirements of securities legislation.

- (2) The records required under subsection (1) include, but are not limited to, records that do the following:
- (a) permit timely creation and audit of financial statements and other financial information required to be filed or delivered to the securities regulatory authority;
  - (b) permit determination of the registered firm's capital position;
  - (c) demonstrate compliance with the registered firm's capital and insurance requirements;
  - (d) demonstrate compliance with internal control procedures;
  - (e) demonstrate compliance with the firm's policies and procedures;
  - (f) permit the identification and segregation of client cash, securities, and other property;
  - (g) identify all transactions conducted on behalf of the registered firm and each of its clients, including the parties to the transaction and the terms of the purchase or sale;
  - (h) provide an audit trail for
    - (i) client instructions and orders, and
    - (ii) each trade transmitted or executed for a client or by the registered firm on its own behalf;
  - (i) permit the generation of account activity reports for clients;
  - (j) provide securities pricing as may be required by securities legislation;
  - (k) document the opening of client accounts, including any agreements with clients;
  - (l) demonstrate compliance with sections 13.2 [*know your client*] and 13.3 [*suitability*];
  - (m) demonstrate compliance with complaint-handling requirements;
  - (n) document correspondence with clients;
  - (o) document compliance and supervision actions taken by the firm.

## 11.6 Form, accessibility and retention of records

- (1) A registered firm must keep a record that it is required to keep under securities legislation
  - (a) for 7 years from the date the record is created,
  - (b) in a safe location and in a durable form, and
  - (c) in a manner that permits it to be provided to the regulator or, in Québec, the securities regulatory authority in a reasonable period of time.
- (2) A record required to be provided to the regulator or, in Québec, the securities regulatory authority must be provided in a format that is capable of being read by the regulator or the securities regulatory authority.
- (3) Paragraph (1)(c) does not apply in Ontario.

Note: In Ontario, how quickly a registered firm is required to provide information to the regulator is addressed in subsection 19(3) of the <i>Securities Act</i> (Ontario).
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*Division 3 Certain business transactions*

## 11.7 Tied settling of securities transactions

A registered firm must not require a person or company to settle that person's or company's transaction with the registered firm through that person's or company's account at a Canadian financial institution as a condition, or on terms that would appear to a reasonable person to be a condition, of supplying a product or service, unless this method of settlement would be, to a reasonable person, necessary to provide the specific product or service that the person or company has requested.

## 11.8 Tied selling

A dealer, adviser or investment fund manager must not require another person or company

- (a) to buy, sell or hold a security as a condition, or on terms that would appear to a reasonable person to be a condition, of supplying or continuing to supply a product or service, or
- (b) to buy, sell or use a product or service as a condition, or on terms that would appear to a reasonable person to be a condition, of buying or selling a security.

## 11.9 Registrant acquiring a registered firm's securities or assets

- (1) A registrant must give the regulator or, in Québec, the securities regulatory authority written notice in accordance with subsection (2) if it proposes to acquire any of the following:
  - (a) for the first time, direct or indirect ownership, beneficial or otherwise, of 10% or more of the voting securities or other securities convertible into voting securities of
    - (i) a firm registered in any jurisdiction of Canada or any foreign jurisdiction, or
    - (ii) a person or company of which a firm registered in any jurisdiction of Canada or any foreign jurisdiction is a subsidiary;
  - (b) all or a substantial part of the assets of a firm registered in any jurisdiction of Canada or any foreign jurisdiction.
- (2) The notice required under subsection (1) must be delivered to the regulator or, in Québec, the securities regulatory authority at least 30 days before the proposed acquisition and must include all relevant facts regarding the acquisition sufficient to enable the regulator or the securities regulatory authority to determine if the acquisition is
  - (a) likely to give rise to a conflict of interest,
  - (b) likely to hinder the registered firm in complying with securities legislation,
  - (c) inconsistent with an adequate level of investor protection, or
  - (d) otherwise prejudicial to the public interest.
- (3) [Repealed]
- (4) Except in Ontario and British Columbia, if, within 30 days of the receipt of a notice under subsection (1), the regulator or, in Québec, the securities regulatory authority notifies the registrant making the acquisition that the regulator or, in Québec, the securities regulatory authority objects to the acquisition, the acquisition must not occur until the regulator or the securities regulatory authority approves it.
- (5) In Ontario, if, within 30 days of the receipt of a notice under subparagraph (1)(a)(i) or paragraph (1)(b), the regulator notifies the registrant making the acquisition that the regulator objects to the acquisition, the acquisition must not occur until the regulator approves it.

- (6) Following receipt of a notice of objection under subsection (4) or (5), the person or company who submitted the notice under subsection (1) may request an opportunity to be heard on the matter by the regulator or, in Québec, the securities regulatory authority objecting to the acquisition.

#### **11.10 Registered firm whose securities are acquired**

- (1) A registered firm must give the regulator or, in Québec, the securities regulatory authority written notice in accordance with subsection (2) if it knows or has reason to believe that any person or company, alone or in combination with any other person or company, is about to acquire, or has acquired, for the first time, direct or indirect ownership, beneficial or otherwise, of 10% or more of the voting securities or other securities convertible into voting securities of any of the following:
  - (a) the registered firm;
  - (b) person or company of which the registered firm is a subsidiary.
- (2) The notice required under subsection (1) must,
  - (a) be delivered to the regulator or, in Québec, the securities regulatory authority as soon as possible,
  - (b) include the name of each person or company involved in the acquisition, and
  - (c) include all facts that to the best of the registered firm's knowledge after reasonable inquiry regarding the acquisition are sufficient to enable the regulator or the securities regulatory authority to determine if the acquisition is
    - (i) likely to give rise to a conflict of interest,
    - (ii) likely to hinder the registered firm in complying with securities legislation,
    - (iii) inconsistent with an adequate level of investor protection, or
    - (iv) otherwise prejudicial to the public interest.
- (3) [Repealed]
- (4) This section does not apply if notice of the acquisition was provided under section 11.9 [*registrant acquiring a registered firm's securities or assets*].

- (5) Except in British Columbia and Ontario, if, within 30 days of the receipt of a notice under subsection (1), the regulator or the securities regulatory authority notifies the person or company making the acquisition that the regulator or, in Québec, the securities regulatory authority objects to the acquisition, the acquisition must not occur until the regulator or the securities regulatory authority approves it.
- (6) In Ontario, if, within 30 days of the receipt of a notice under paragraph (1)(a), the regulator notifies the person or company making the acquisition that the regulator objects to the acquisition, the acquisition must not occur until the regulator approves it.
- (7) Following receipt of a notice of objection under subsection (5) or (6), the person or company proposing to make the acquisition may request an opportunity to be heard on the matter by the regulator or, in Québec, the securities regulatory authority objecting to the acquisition.

## **PART 12 - FINANCIAL CONDITION**

### *Division 1 Working capital*

#### **12.1 Capital requirements**

- (1) If, at any time, the excess working capital of a registered firm, as calculated in accordance with Form 31-103F1 *Calculation of Excess Working Capital*, is less than zero, the registered firm must notify the regulator or, in Québec, the securities regulatory authority as soon as possible.
- (2) The excess working capital of a registered firm, as calculated in accordance with Form 31-103F1 *Calculation of Excess Working Capital*, must not be less than zero for 2 consecutive days.
- (3) For the purpose of completing Form 31-103F1 *Calculation of Excess Working Capital*, the minimum capital is
  - (a) \$25,000, for a registered adviser that is not also a registered dealer or a registered investment fund manager,
  - (b) \$50,000, for a registered dealer that is not also a registered investment fund manager, and
  - (c) \$100,000, for a registered investment fund manager.
- (4) Paragraph (3)(c) does not apply to a registered investment fund manager that is exempt from the dealer registration requirement under section 8.6 [*investment*



*fund trades by adviser to managed account]* in respect of all investment funds for which it acts as adviser.

- (5) This section does not apply to a registered firm that is a member of IIROC and is registered as an investment fund manager if all of the following apply:
- (a) the firm has a minimum capital of not less than \$100,000 as calculated in accordance with IIROC Form 1 *Joint Regulatory Financial Questionnaire and Report*;
  - (b) the firm notifies the regulator or, in Québec, the securities regulatory authority as soon as possible if, at any time, the firm's risk adjusted capital, as calculated in accordance with IIROC Form 1 *Joint Regulatory Financial Questionnaire and Report* is less than zero;
  - (c) the risk adjusted capital of the firm, as calculated in accordance with IIROC Form 1 *Joint Regulatory Financial Questionnaire and Report*, is not less than zero for 2 consecutive days.
- (6) This section does not apply to a mutual fund dealer that is a member of the MFDA if it is also registered as an exempt market dealer, a scholarship plan dealer or an investment fund manager and if all of the following apply:
- (a) the firm has a minimum capital, as calculated in accordance with MFDA Form 1 *MFDA Financial Questionnaire and Report*, of not less than
    - (i) \$50,000, if the firm is registered as an exempt market dealer or scholarship plan dealer,
    - (ii) \$100,000, if the firm is registered as an investment fund manager;
  - (b) the firm notifies the regulator or, in Québec, the securities regulatory authority as soon as possible if, at any time, the firm's risk adjusted capital, as calculated in accordance with MFDA Form 1 *MFDA Financial Questionnaire and Report* is less than zero;
  - (c) the risk adjusted capital of the firm, as calculated in accordance with MFDA Form 1 *MFDA Financial Questionnaire and Report*, is not less than zero for 2 consecutive days.

## **12.2 Subordination agreement**

- (1) If a registered firm has entered into a subordination agreement in the form set out in Appendix B, it may exclude the amount of non-current related party debt subordinated under that agreement from the calculation of its excess working capital on Form 31-103F1 *Calculation of Excess Working Capital*.

- (2) The registered firm must deliver an executed copy of the subordination agreement referred to subsection (1) to the regulator or, in Québec, the securities regulatory authority on the earliest of the following dates:
  - (a) 10 days after the date on which the subordination agreement is executed;
  - (b) the date on which the amount of the subordinated debt is excluded from the registered firm's non-current related party debt as calculated on Form 31-103F1 *Calculation of Excess Working Capital*.
- (3) The registered firm must notify the regulator or, in Québec, the securities regulatory authority 10 days before it
  - (a) repays the loan or any part of the loan, or
  - (c) terminates the agreement.

*Division 2 Insurance*

**12.3 Insurance – Dealer**

- (1) A registered dealer must maintain bonding or insurance
  - (a) that contains the clauses set out in Appendix A [*bonding and insurance clauses*], and
  - (b) that provides for a double aggregate limit or a full reinstatement of coverage.
- (2) A registered dealer must maintain bonding or insurance in respect of each clause set out in Appendix A in the highest of the following amounts for each clause:
  - (a) \$50,000 per employee, agent and dealing representative or \$200,000, whichever is less;
  - (b) one per cent of the total client assets that the dealer holds or has access to, as calculated using the dealer's most recent financial records, or \$25,000,000, whichever is less;
  - (c) one per cent of the dealer's total assets, as calculated using the dealer's most recent financial records, or \$25,000,000, whichever is less;
  - (d) the amount determined to be appropriate by a resolution of the dealer's board of directors, or individuals acting in a similar capacity for the firm.

- (3) In Québec, this section does not apply to a scholarship plan dealer or a mutual fund dealer registered only in Québec.

#### **12.4 Insurance – Adviser**

- (1) A registered adviser must maintain bonding or insurance
  - (a) that contains the clauses set out in Appendix A [*bonding and insurance clauses*], and
  - (b) that provides for a double aggregate limit or a full reinstatement of coverage.
- (2) A registered adviser that does not hold or have access to client assets must maintain bonding or insurance in respect of each clause set out in Appendix A in the amount of \$50,000 for each clause.
- (3) A registered adviser that holds or has access to client assets must maintain bonding or insurance in respect of each clause set out in Appendix A in the highest of the following amounts for each clause:
  - (a) one per cent of assets under management that the adviser holds or has access to, as calculated using the adviser's most recent financial records, or \$25,000,000, whichever is less;
  - (b) one per cent of the adviser's total assets, as calculated using the adviser's most recent financial records, or \$25,000,000, whichever is less;
  - (c) \$200,000;
  - (d) the amount determined to be appropriate by a resolution of the adviser's board of directors or individuals acting in a similar capacity for the firm.

#### **12.5 Insurance – Investment fund manager**

- (1) A registered investment fund manager must maintain bonding or insurance
  - (a) that contains the clauses set out in Appendix A [*bonding and insurance clauses*], and
  - (b) that provides for a double aggregate limit or a full reinstatement of coverage.
- (2) A registered investment fund manager must maintain bonding or insurance in respect of each clause set out in Appendix A in the highest of the following amounts for each clause:

- (a) one per cent of assets under management, as calculated using the investment fund manager's most recent financial records, or \$25,000,000, whichever is less;
- (b) one per cent of the investment fund manager's total assets, as calculated using the investment fund manager's most recent financial records, or \$25,000,000, whichever is less;
- (c) \$200,000;
- (d) the amount determined to be appropriate by a resolution of the investment fund manager's board of directors or individuals acting in a similar capacity for the firm.

## **12.6 Global bonding or insurance**

A registered firm must not maintain bonding or insurance under this Division that benefits, or names as an insured, another person or company unless the bond provides, without regard to the claims, experience or any other factor referable to that other person or company, the following:

- (a) the registered firm has the right to claim directly against the insurer in respect of losses, and any payment or satisfaction of those losses must be made directly to the registered firm;
- (b) the individual or aggregate limits under the policy must only be affected by claims made by or on behalf of
  - (i) the registered firm, or
  - (ii) a subsidiary of the registered firm whose financial results are consolidated with those of the registered firm.

## **12.7 Notifying the regulator or the securities regulatory authority of a change, claim or cancellation**

A registered firm must, as soon as possible, notify the regulator or, in Québec, the securities regulatory authority in writing of any change in, claim made under, or cancellation of any insurance policy required under this Division.

### *Division 3 Audits*

## **12.8 Direction by the regulator or the securities regulatory authority to conduct an audit or review**

A registered firm must direct its auditor in writing to conduct any audit or review

required by the regulator or, in Québec, the securities regulatory authority during its registration and must deliver a copy of the direction to the regulator or the securities regulatory authority

- (a) with its application for registration, and
- (b) no later than the 10th day after the registered firm changes its auditor.

## **12.9 Co-operating with the auditor**

A registrant must not withhold, destroy or conceal any information or documents or otherwise fail to cooperate with a reasonable request made by an auditor of the registered firm in the course of an audit.

### *Division 4 Financial reporting*

## **12.10 Annual financial statements**

- (1) Annual financial statements delivered to the regulator or, in Québec, the securities regulatory authority under this Division for financial years beginning on or after January 1, 2011 must include the following:
  - (a) a statement of comprehensive income, a statement of changes in equity and a statement of cash flows, each prepared for the most recently completed financial year and the financial year immediately preceding the most recently completed financial year, if any;
  - (b) a statement of financial position, signed by at least one director of the registered firm, as at the end of the most recently completed financial year and the financial year immediately preceding the most recently completed financial year, if any;
  - (c) notes to the financial statements.
- (2) The annual financial statements delivered to the regulator or, in Québec, the securities regulatory authority under this Division must be audited.
- (3) [Repealed]

## **12.11 Interim financial information**

- (1) Interim financial information delivered to the regulator or, in Québec, the securities regulatory authority under this Division for interim periods relating to financial years beginning on or after January 1, 2011 may be limited to the following:

- (a) a statement of comprehensive income for the 3-month period ending on the last day of the interim period and for the same period of the immediately preceding financial year, if any;
  - (b) a statement of financial position, signed by at least one director of the registered firm, as at the end of the interim period and as at the end of the same interim period of the immediately preceding financial year, if any.
- (2) The interim financial information delivered to the regulator or, in Québec, the securities regulatory authority under this Division must be prepared using the same accounting principles that the registered firm uses to prepare its annual financial statements.

### **12.12 Delivering financial information – Dealer**

- (1) A registered dealer must deliver the following to the regulator or, in Québec, the securities regulatory authority no later than the 90th day after the end of its financial year:
- (a) its annual financial statements for the financial year;
  - (b) a completed Form 31-103F1 *Calculation of Excess Working Capital*, showing the calculation of the dealer's excess working capital as at the end of the financial year and as at the end of the immediately preceding financial year, if any.
- (2) A registered dealer must deliver the following to the regulator or, in Québec, the securities regulatory authority no later than the 30th day after the end of the first, second and third interim period of its financial year:
- (a) its interim financial information for the interim period;
  - (b) a completed Form 31-103F1 *Calculation of Excess Working Capital*, showing the calculation of the dealer's excess working capital as at the end of the interim period and as at the end of the immediately preceding interim period, if any.
- (2.1) If a registered firm is a member of the MFDA and is registered as an exempt market dealer or scholarship plan dealer, the firm is exempt from paragraphs (1)(b) and (2)(b) if all of the following apply:
- (a) the firm has a minimum capital of not less than \$50,000 as calculated in accordance with MFDA Form 1 *MFDA Financial Questionnaire and Report*;

- (b) the firm delivers to the regulator or, in Québec, the securities regulatory authority a completed MFDA Form 1 *MFDA Financial Questionnaire and Report*, no later than the 90<sup>th</sup> day after the end of its financial year, that shows the calculation of the firm's risk adjusted capital as at the end of the financial year and as at the end of the immediately preceding financial year, if any;
  - (c) the firm delivers to the regulator or, in Québec, the securities regulatory authority a completed MFDA Form 1 *MFDA Financial Questionnaire and Report*, no later than the 30<sup>th</sup> day after the end of the first, second and third interim period of its financial year, that shows the calculation of the firm's risk adjusted capital as at the end of the interim period and as at the end of the immediately preceding month, if any.
- (3) Subsection (2) does not apply to an exempt market dealer unless it is also registered in another category, other than the portfolio manager or restricted portfolio manager category.

### **12.13 Delivering financial information – Adviser**

A registered adviser must deliver the following to the regulator or, in Québec, the securities regulatory authority no later than the 90<sup>th</sup> day after the end of its financial year:

- (a) its annual financial statements for the financial year;
- (b) a completed Form 31-103F1 *Calculation of Excess Working Capital*, showing the calculation of the adviser's excess working capital as at the end of the financial year and as at the end of the immediately preceding financial year, if any.

### **12.14 Delivering financial information – Investment fund manager**

- (1) A registered investment fund manager must deliver the following to the regulator or, in Québec, the securities regulatory authority no later than the 90<sup>th</sup> day after the end of its financial year:
- (a) its annual financial statements for the financial year;
  - (b) a completed Form 31-103F1 *Calculation of Excess Working Capital*, showing the calculation of the investment fund manager's excess working capital as at the end of the financial year and as at the end of the immediately preceding financial year, if any;
  - (c) a completed Form 31-103F4 *Net Asset Value Adjustments* if any net asset value adjustment has been made in respect of an investment fund managed by the investment fund manager during the financial year.

- (2) A registered investment fund manager must deliver the following to the regulator or, in Québec, the securities regulatory authority no later than the 30th day after the end of the first, second and third interim period of its financial year:
  - (a) its interim financial information for the interim period;
  - (b) a completed Form 31-103F1 *Calculation of Excess Working Capital*, showing the calculation of the investment fund manager's excess working capital as at the end of the interim period and as at the end of the immediately preceding interim period, if any;
  - (c) a completed Form 31-103F4 *Net Asset Value Adjustments* if any net asset value adjustment has been made in respect of an investment fund managed by the investment fund manager during the interim period.
- (3) [Repealed]
- (4) If a registered firm is a member of IIROC and is registered as an investment fund manager, the firm is exempt from paragraphs (1)(b) and (2)(b) if
  - (a) the firm has a minimum capital of not less than \$100,000, as calculated in accordance with IIROC Form 1 *Joint Regulatory Financial Questionnaire and Report*;
  - (b) the firm delivers to the regulator or, in Québec, the securities regulatory authority a completed IIROC Form 1 *Joint Regulatory Financial Questionnaire and Report*, no later than the 90<sup>th</sup> day after the end of its financial year, that shows the calculation of the firm's risk adjusted capital as at the end of the financial year and as at the end of the immediately preceding financial year, if any, and
  - (c) the firm delivers to the regulator or, in Québec, the securities regulatory authority a completed IIROC Form 1 *Joint Regulatory Financial Questionnaire and Report*, no later than the 30<sup>th</sup> day after the end of the first, second and third interim period of its financial year, that shows the calculation of the firm's risk adjusted capital as at the end of the interim period and as at the end of the immediately preceding month, if any.
- (5) If a registered firm is a member of the MFDA and is registered as an investment fund manager, the firm is exempt from paragraphs (1)(b) and (2)(b) if
  - (a) the firm has a minimum capital of not less than \$100,000, as calculated in accordance with MFDA Form 1 *MFDA Financial Questionnaire and Report*,



- (b) the firm delivers to the regulator or, in Québec, the securities regulatory authority a completed MFDA Form 1 *MFDA Financial Questionnaire and Report*, no later than the 90<sup>th</sup> day after the end of its financial year, that shows the calculation of the firm's risk adjusted capital as at the end of the financial year and as at the end of the immediately preceding financial year, if any, and
- (c) the firm delivers to the regulator or, in Québec, the securities regulatory authority a completed MFDA Form 1 *MFDA Financial Questionnaire and Report*, no later than the 30<sup>th</sup> day after the end of the first, second and third interim period of its financial year, that shows the calculation of the firm's risk adjusted capital as at the end of the interim period and as at the end of the immediately preceding month, if any.

### **12.15 Exemptions for financial years beginning in 2011**

- (1) Despite subsections 12.10(1), 12.11(1), 12.12(1) and (2), 12.13 and 12.14(1) and (2), the annual financial statements, the interim financial information, and the completed Form 31-103F1 *Calculation of Excess Working Capital*, for a financial year beginning in 2011 or for interim periods relating to a financial year beginning in 2011 may exclude comparative information for the preceding financial period.
- (2) Despite subsection 12.12(2), the first interim financial information, and the first completed Form 31-103F1 *Calculation of Excess Working Capital*, required to be delivered in respect of an interim period beginning on or after January 1, 2011 must be delivered no later than the 45<sup>th</sup> day after the end of the interim period
- (3) Despite subsection 12.14(2), the first interim financial information, the first completed Form 31-103F1 *Calculation of Excess Working Capital*, and the description of any net asset value adjustment, required to be delivered in respect of an interim period beginning on or after January 1, 2011 must be delivered no later than the 45<sup>th</sup> day after the end of the interim period.

## **PART 13 - DEALING WITH CLIENTS – INDIVIDUALS AND FIRMS**

### *Division 1 Know your client and suitability*

#### **13.1 Investment fund managers exempt from this division**

This Division does not apply to an investment fund manager in respect of its activities as an investment fund manager.

#### **13.2 Know your client**

- (1) For the purpose of paragraph 2(b) in Ontario, Nova Scotia and New Brunswick, “insider” has the meaning ascribed to that term in the *Securities Act* except that

“reporting issuer”, as it appears in the definition of “insider”, is to be read as “reporting issuer or any other issuer whose securities are publicly traded”.

- (2) A registrant must take reasonable steps to
  - (a) establish the identity of a client and, if the registrant has cause for concern, make reasonable inquiries as to the reputation of the client,
  - (b) establish whether the client is an insider of a reporting issuer or any other issuer whose securities are publicly traded,
  - (c) ensure that it has sufficient information regarding all of the following to enable it to meet its obligations under section 13.3 [*suitability*] or, if applicable, the suitability requirement imposed by an SRO:
    - (i) the client’s investment needs and objectives;
    - (ii) the client’s financial circumstances;
    - (iii) the client’s risk tolerance, and
  - (d) establish the creditworthiness of the client if the registered firm is financing the client’s acquisition of a security.
- (3) For the purpose of establishing the identity of a client that is a corporation, partnership or trust, the registrant must establish the following:
  - (a) the nature of the client’s business;
  - (b) the identity of any individual who,
    - (i) in the case of a corporation, is a beneficial owner of, or exercises direct or indirect control or direction over, more than 25% of the voting rights attached to the outstanding voting securities of the corporation, or
    - (ii) in the case of a partnership or trust, exercises control over the affairs of the partnership or trust.
- (4) A registrant must take reasonable steps to keep the information required under this section current.
- (5) This section does not apply if the client is a registered firm, a Canadian financial institution or a Schedule III bank.

- (6) Paragraph (2)(c) does not apply to a registrant in respect of a permitted client if
  - (a) the permitted client has waived, in writing, the requirements under subsections 13.3(1) and (2), and
  - (b) the registrant does not act as an adviser in respect of a managed account of the permitted client.
- (7) Paragraph (2)(b) does not apply to a registrant in respect of a client for which the registrant only trades securities referred to in paragraphs 7.1(2)(b) and (2)(c).

### **13.3 Suitability**

- (1) A registrant must take reasonable steps to ensure that, before it makes a recommendation to or accepts an instruction from a client to buy or sell a security, or makes a purchase or sale of a security for a client's managed account, the purchase or sale is suitable for the client.
- (2) If a client instructs a registrant to buy, sell or hold a security and in the registrant's reasonable opinion following the instruction would not be suitable for the client, the registrant must inform the client of the registrant's opinion and must not buy or sell the security unless the client instructs the registrant to proceed nonetheless.
- (3) This section does not apply if the client is a registered firm, a Canadian financial institution or a Schedule III bank.
- (4) This section does not apply to a registrant in respect of a permitted client if
  - (a) the permitted client has waived, in writing, the requirements under this section, and
  - (b) the registrant does not act as an adviser in respect of a managed account of the permitted client.

#### *Division 2 Conflicts of interest*

### **13.4 Identifying and responding to conflicts of interest**

- (1) A registered firm must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that the registered firm in its reasonable opinion would expect to arise, between the firm, including each individual acting on the firm's behalf, and a client.
- (2) A registered firm must respond to an existing or potential conflict of interest identified under subsection (1).

- (3) If a reasonable investor would expect to be informed of a conflict of interest identified under subsection (1), the registered firm must disclose, in a timely manner, the nature and extent of the conflict of interest to the client whose interest conflicts with the interest identified.
- (4) This section does not apply to an investment fund manager in respect of an investment fund that is subject to National Instrument 81-107 *Independent Review Committee for Investment Funds*.

### **13.5 Restrictions on certain managed account transactions**

- (1) In this section, “responsible person” means, for a registered adviser,
  - (a) the adviser,
  - (b) a partner, director or officer of the adviser, and
  - (c) each of the following who has access to, or participates in formulating, an investment decision made on behalf of a client of the adviser or advice to be given to a client of the adviser:
    - (i) an employee or agent of the adviser;
    - (ii) an affiliate of the adviser;
    - (iii) a partner, director, officer, employee or agent of an affiliate of the adviser.
- (2) A registered adviser must not knowingly cause an investment portfolio managed by it, including an investment fund for which it acts as an adviser, to do any of the following:
  - (a) purchase a security of an issuer in which a responsible person or an associate of a responsible person is a partner, officer or director unless
    - (i) this fact is disclosed to the client, and
    - (ii) the written consent of the client to the purchase is obtained before the purchase;
  - (b) purchase or sell a security from or to the investment portfolio of any of the following:
    - (i) a responsible person;
    - (ii) an associate of a responsible person;

- (iii) an investment fund for which a responsible person acts as an adviser;
- (c) provide a guarantee or loan to a responsible person or an associate of a responsible person.

### **13.6 Disclosure when recommending related or connected securities**

A registered firm must not make a recommendation in any medium of communication to buy, sell or hold a security issued by the registered firm, a security of a related issuer or, during the security's distribution, a security of a connected issuer of the registered firm, unless any of the following apply:

- (a) the firm discloses, in the same medium of communication, the nature and extent of the relationship or connection between the firm and the issuer;
- (b) the recommendation is in respect of a security of a mutual fund, a scholarship plan, an educational plan or an educational trust that is an affiliate of, or is managed by an affiliate of, the registered firm and the names of the registered firm and the fund, plan or trust, as the case may be, are sufficiently similar to indicate that they are affiliated.

#### *Division 3 Referral arrangements*

### **13.7 Definitions – Referral arrangements**

In this Division

“client” includes a prospective client;

“referral arrangement” means any arrangement in which a registrant agrees to pay or receive a referral fee;

“referral fee” means any form of compensation, direct or indirect, paid for the referral of a client to or from a registrant.

### **13.8 Permitted referral arrangements**

A registered firm, or a registered individual whose registration is sponsored by the registered firm, must not participate in a referral arrangement with another person or company unless,

- (a) before a client is referred by or to the registrant, the terms of the referral arrangement are set out in a written agreement between the registered firm and the person or company,

- (b) the registered firm records all referral fees, and
- (c) the registrant ensures that the information prescribed by subsection 13.10(1) [*disclosing referral arrangements to clients*] is provided to the client in writing before the party receiving the referral either opens an account for the client or provides services to the client.

### **13.9 Verifying the qualifications of the person or company receiving the referral**

A registered firm, or a registered individual whose registration is sponsored by the registered firm, must not refer a client to another person or company unless the firm first takes reasonable steps to satisfy itself that the person or company has the appropriate qualifications to provide the services, and if applicable, is registered to provide those services.

### **13.10 Disclosing referral arrangements to clients**

- (1) The written disclosure of the referral arrangement required by paragraph 13.8(c) [*permitted referral arrangements*] must include the following:
  - (a) the name of each party to the agreement referred to in paragraph 13.8(a);
  - (b) the purpose and material terms of the agreement, including the nature of the services to be provided by each party;
  - (c) any conflicts of interest resulting from the relationship between the parties to the agreement and from any other element of the referral arrangement;
  - (d) the method of calculating the referral fee and, to the extent possible, the amount of the fee;
  - (e) the category of registration of each registrant that is a party to the agreement with a description of the activities that the registrant is authorized to engage in under that category and, giving consideration to the nature of the referral, the activities that the registrant is not permitted to engage in;
  - (f) if a referral is made to a registrant, a statement that all activity requiring registration resulting from the referral arrangement will be provided by the registrant receiving the referral;
  - (g) any other information that a reasonable client would consider important in evaluating the referral arrangement.
- (2) If there is a change to the information set out in subsection (1), the registrant must ensure that written disclosure of that change is provided to each client affected by

the change as soon as possible and no later than the 30th day before the date on which a referral fee is next paid or received.

### **13.11 Referral arrangements before this instrument came into force**

- (1) This Division applies to a referral arrangement entered into before this Instrument came into force if a referral fee is paid under the referral arrangement after this Instrument comes into force.
- (2) Subsection (1) does not apply until 6 months after this Instrument comes into force.

*Division 4      Loans and margin*

### **13.12 Restriction on lending to clients**

- (1) A registrant must not lend money, extend credit or provide margin to a client.
- (2) Notwithstanding subsection (1), an investment fund manager may lend money on a short term basis to an investment fund it manages, if the loan is for the purpose of funding redemptions of its securities or meeting expenses incurred by the investment fund in the normal course of its business.

### **13.13 Disclosure when recommending the use of borrowed money**

- (1) If a registrant recommends that a client should use borrowed money to finance any part of a purchase of a security, the registrant must, before the purchase, provide the client with a written statement that is substantially similar to the following:

*“Using borrowed money to finance the purchase of securities involves greater risk than a purchase 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.”*

- (2) Subsection (1) does not apply if one of the following applies:
  - (a) the registrant has provided the client with the statement described under subsection (1) no earlier than the 180th day before the date of the proposed purchase;
  - (b) [Repealed]
  - (c) the client is a permitted client.

Division 5      *Complaints*

**13.14 Application of this division**

- (1) This Division does not apply to an investment fund manager in respect of its activities as an investment fund manager.
- (2) In Québec, a registered firm is deemed to comply with this Division if it complies with sections 168.1.1 to 168.1.3 of the *Securities Act* (Québec).

**13.15 Handling complaints**

A registered firm must document and, in a manner that a reasonable investor would consider fair and effective, respond to each complaint made to the registered firm about any product or service offered by the firm or a representative of the firm.

**13.16 Dispute resolution service**

- (1) In this section,
  - “complaint” means a complaint that
    - (a) relates to a trading or advising activity of a registered firm or a representative of the firm, and
    - (b) is received by the firm within 6 years of the day when the client first knew or reasonably ought to have known of an act or omission that is a cause of or contributed to the complaint;
  - “OBSI” means the Ombudsman for Banking Services and Investments.
- (2) If a registered firm receives a complaint from a client, the firm must, as soon as possible, provide the client with a written acknowledgement of the complaint that includes the following:
  - (a) a description of the firm’s obligations under this section;
  - (b) the steps that the client must take in order for an independent dispute resolution or mediation service to be made available to the client under subsection (4);
  - (c) the name of the independent dispute resolution or mediation service that will be made available to the client under subsection (4) and contact information for the service.



- (3) If a registered firm decides to reject a complaint or to make an offer to resolve a complaint, the firm must, as soon as possible, provide the client with written notice of the decision and include the information referred to in subsection (2).
- (4) A registered firm must as soon as possible ensure that an independent dispute resolution or mediation service is made available to a client at the firm's expense with respect to a complaint if either of the following apply:
  - (a) after 90 days of the firm's receipt of the complaint, the firm has not given the client written notice of a decision under subsection (3), and the client has notified the independent dispute resolution or mediation service specified under paragraph (2)(c) that the client wishes to have the complaint considered by the service;
  - (b) within 180 days of the client's receipt of written notice of the firm's decision under subsection (3), the client has notified the independent dispute resolution or mediation service specified under paragraph (2)(c) that the client wishes to have the complaint considered by the service.
- (5) Subsection (4) does not apply unless the client agrees that any amount the client will claim for the purpose of the independent dispute resolution or mediation service's consideration of the complaint will be no greater than \$350,000.
- (6) For the purposes of the requirement to make available an independent dispute resolution or mediation service under subsection (4), a registered firm must take reasonable steps to ensure that OBSI will be the service that is made available to the client.
- (7) Subsection (6) does not apply in Québec.
- (8) This section does not apply in respect of a complaint made by a permitted client that is not an individual.

Note:

Transition – firms that registered before September 29, 2009

Except in Québec, section 13.16 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, as amended by this instrument, does not apply to a registered dealer or registered adviser if

- (a) the dealer or adviser first registered in a jurisdiction of Canada before September 29, 2009, and
- (b) the complaint was received by the firm on or before August 1, 2014.

Transition – firms that registered between September 28, 2009 and April 30, 2014

Section 13.16 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, as amended by this instrument, does not apply to a registered dealer or registered adviser if

- (a) the dealer or adviser first registered in a jurisdiction of Canada during the period commencing on September 28, 2009 and ending on April 30, 2014,
- (b) the complaint was received by the firm on or before August 1, 2014, and
- (c) the firm complies with section 13.16 of that National Instrument as that provision was in force on April 30, 2014.

Division 6      *Registered sub-advisers*

### **13.17 Exemption from certain requirements for registered sub-advisers**

- (1) A registered sub-adviser is exempt from the following requirements in respect of its activities as a sub-adviser:
  - (a) section 13.4 [*identifying and responding to conflicts of interest*];
  - (b) division 3 [*referral arrangements*] of Part 13;
  - (c) division 5 [*complaints*] of Part 13;
  - (d) section 14.3 [*disclosure to clients about the fair allocation of investment opportunities*];
  - (e) section 14.5 [*notice to clients by non-resident registrants*];
  - (f) section 14.14 [*account statements*].
- (2) The exemption under subsection (1) is not available unless all of the following apply:
  - (a) the obligations and duties of the registered sub-adviser are set out in a written agreement with the sub-adviser's registered adviser or registered dealer;
  - (b) the registered adviser or registered dealer has entered into a written agreement with its clients on whose behalf investment advice is or portfolio management services are to be provided agreeing to be responsible for any loss that arises out of the failure of the registered sub-adviser

- (i) to exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of the registrant and each client of the registrant for whose benefit the advice is or portfolio management services are to be provided, or
- (ii) to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

## **PART 14 - HANDLING CLIENT ACCOUNTS – FIRMS**

### *Division 1 Investment fund managers*

#### **14.1 Application of this Part to investment fund managers**

Other than section 14.1.1, section 14.6, subsection 14.12(5) and section 14.15, this Part does not apply to an investment fund manager in respect of its activities as an investment fund manager.

##### **14.1.1 Duty to provide information**

A registered investment fund manager of an investment fund must, within a reasonable period of time, provide a registered dealer or registered adviser who has a client that owns securities of the investment fund with the information concerning deferred sales charges and any other charges deducted from the net asset value of securities, and the information concerning trailing commissions paid to the dealer or adviser, that is required by the dealer or adviser in order to comply with paragraphs 14.12(1)(c) and 14.17(1)(h).

### *Division 2 Disclosure to clients*

#### **14.2 Relationship disclosure information**

- (1) A registered firm must deliver to a client all information that a reasonable investor would consider important about the client's relationship with the registrant.
- (2) Without limiting subsection (1), the information delivered under that subsection must include the following:
  - (a) a description of the nature or type of the client's account;
  - (b) a general description of the products and services the registered firm offers to the client;
  - (c) a general description of the types of risks that a client should consider when making an investment decision;

- (d) a description of the risks to a client of using borrowed money to finance a purchase of a security;
- (e) a description of the conflicts of interest that the registered firm is required to disclose to a client under securities legislation;
- (f) disclosure of the operating charges the client might be required to pay related to the account;
- (g) a general description of the types of transaction charges the client might be required to pay;
- (h) a general description of any compensation paid to the registered firm by any other party in relation to the different types of products that a client may purchase through the registered firm;
- (i) a description of the content and frequency of reporting for each account or portfolio of a client;
- (j) disclosure of the firm's obligations if a client has a complaint contemplated under section 13.16 [*dispute resolution service*] and the steps that the client must take in order for an independent dispute resolution or mediation service to be made available to the client at the firm's expense;
- (k) a statement that the registered firm has an obligation to assess whether a purchase or sale of a security is suitable for a client prior to executing the transaction or at any other time;
- (l) the information a registered firm must collect about the client under section 13.2 [*know your client*];
- (m) 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 clients by the registered firm;
- (n) if the registered firm is a scholarship plan dealer, an explanation of any terms of the scholarship plan offered to the client by the scholarship plan dealer that, if not met by the client or the client's designated beneficiary under the plan, might cause the client or the designated beneficiary to suffer a loss of contributions, earnings or government contributions in the plan.

- (3) A registered firm must deliver the information in subsection (1), if applicable, and subsection (2) to the client in writing, except that the information in paragraph (2)(b) may be provided orally or in writing, before the firm first
  - (a) purchases or sells a security for the client, or
  - (b) advises the client to purchase, sell or hold a security.
- (4) If there is a significant change in respect of the information delivered to a client under subsections (1) or (2), the registered firm must take reasonable steps to notify the client of the change in a timely manner and, if possible, before the firm next:
  - (a) purchases or sells a security for the client; or
  - (b) advises the client to purchase, sell or hold a security.
- (5) [Repealed]
- (5.1) A registered firm must not impose any new operating charge in respect of an account of a client, or increase the amount of any operating charge in respect of an account of a client, unless written notice of the new or increased operating charge is provided to the client at least 60 days before the date on which the imposition or increase becomes effective.
- (6) This section does not apply to a registered firm in respect of a permitted client that is not an individual.
- (7) Except for subsections (5.1), (6) and (8), this section does not apply to a registered dealer in respect of a client for whom the dealer purchases or sells securities only as directed by a registered adviser acting for the client.
- (8) A registered dealer referred to in subsection (7) must deliver the information required under paragraphs (2)(a) and (e) to (j) to the client in writing, and the information in paragraph (2)(b) orally or in writing, before the dealer first purchases or sells a security for the client.

#### **14.2.1 Pre-trade disclosure of charges**

- (1) Before a registered firm accepts an instruction from a client to purchase or sell a security in an account other than a managed account, the firm must disclose to the client
  - (a) the charges the client will be required to pay 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,

- (b) 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
  - (c) whether the firm will receive trailing commissions in respect of the security.
- (2) This section does not apply to a registered firm in respect of a permitted client that is not an individual.
  - (3) This section does not apply to a dealer in respect of a client for whom the dealer purchases or sells securities only as directed by a registered adviser acting for the client.

### **14.3 Disclosure to clients about the fair allocation of investment opportunities**

A registered adviser must deliver to a client a summary of the policies required under section 11.1 [*compliance system*] that provide reasonable assurance that the firm and each individual acting on its behalf complies with section 14.10 [*allocating investment opportunities fairly*] and that summary must be delivered

- (a) when the adviser opens an account for the client, and
- (b) if there is a significant change to the summary last delivered to the client, in a timely manner and, if possible, before the firm next
  - (i) purchases or sells a security for the client, or
  - (ii) advises the client to purchase, sell or hold a security.

### **14.4 When the firm has a relationship with a financial institution**

- (1) If a registered firm opens a client account to trade in securities, in an office or branch of a Canadian financial institution or a Schedule III bank, the registered firm must give the client a written notice stating that it is a separate legal entity from the Canadian financial institution or Schedule III bank and, unless otherwise advised by the registrant, securities purchased from or through the registrant
  - (a) are not insured by a government deposit insurer,
  - (b) are not guaranteed by the Canadian financial institution or Schedule III bank, and
  - (c) may fluctuate in value.

- (2) A registered firm that is subject to subsection (1) must receive a written confirmation from the client that the client has read and understood the notice before the registered firm
  - (a) purchases or sells a security for the client, or
  - (b) advises the client to purchase, sell or hold a security.
- (3) This section does not apply to a registered firm if the client is a permitted client.

#### **14.5 Notice to clients by non-resident registrants**

- (1) A registered firm whose head office is not located in the local jurisdiction must provide a client in the local jurisdiction with a statement in writing disclosing the following:
  - (a) the firm is not resident in the local jurisdiction;
  - (b) the jurisdiction in Canada or the foreign jurisdiction in which the head office or the principal place of business of the firm is located;
  - (c) all or substantially all of the assets of the firm may be situated outside the local jurisdiction;
  - (d) there may be difficulty enforcing legal rights against the firm because of the above;
  - (e) the name and address of the agent for service of process of the firm in the local jurisdiction.
- (2) This section does not apply to a registered firm whose head office is in Canada if the firm is registered in the local jurisdiction.

#### *Division 3 Client assets*

#### **14.6 Holding client assets in trust**

A registered firm that holds client assets must hold the assets

- (a) separate and apart from its own property,
- (b) in trust for the client, and
- (c) in the case of cash, in a designated trust account at a Canadian financial institution, a Schedule III bank, or a member of IIROC.

#### **14.7 Holding client assets – Non-resident registrants**

- (1) A registered firm whose head office is not located in a jurisdiction of Canada must ensure that all client assets are held
  - (a) in the client's name,
  - (b) on behalf of the client by a custodian or sub-custodian that
    - (i) meets the guidelines prescribed for acting as a sub-custodian of the portfolio securities of a mutual fund in Part 6 of National Instrument 81-102 *Investment Funds*, and
    - (ii) is subject to the Bank for International Settlements' framework for international convergence of capital measurement and capital standards, or
  - (c) on behalf of the client by a registered dealer that is a member of an SRO and that is a member of the Canadian Investor Protection Fund or other comparable compensation fund or contingency trust fund.
- (2) Section 14.6 [*holding client assets in trust*] does not apply to a registered firm that is subject to subsection (1).

#### **14.8 Securities subject to a safekeeping agreement**

A registered firm that holds unencumbered securities for a client under a written safekeeping agreement must

- (a) segregate the securities from all other securities,
- (b) identify the securities as being held in safekeeping for the client in
  - (i) the registrant's security position record,
  - (ii) the client's ledger, and
  - (iii) the client's statement of account, and
- (c) release the securities only on an instruction from the client.

#### **14.9 Securities not subject to a safekeeping agreement**

- (1) A registered firm that holds unencumbered securities for a client other than under a written safekeeping agreement must



- (a) segregate and identify the securities as being held in trust for the client, and
  - (b) describe the securities as being held in segregation on
    - (i) the registrant's security position record,
    - (ii) the client's ledger, and
    - (iii) the client's statement of account.
- (2) Securities described in subsection (1) may be segregated in bulk.

*Division 4 Client accounts*

**14.10 Allocating investment opportunities fairly**

A registered adviser must ensure fairness in allocating investment opportunities among its clients.

**14.11 Selling or assigning client accounts**

If a registered firm proposes to sell or assign a client's account in whole or in part to another registrant, the registered firm must, prior to the sale or assignment, give a written explanation of the proposal to the client and inform the client of the client's right to close the client's account.

*Division 5 Reporting to clients*

**14.11.1 Determining market value**

- (1) For the purposes of this Division, the market value of a security
  - (a) that is issued by an investment fund which is not listed on an exchange must be determined by reference to the net asset value provided by the investment fund manager of the fund on the relevant date;
  - (b) in any other case, is the amount that the registered firm reasonably believes to be the market value of the security
    - (i) after referring to a price quotation on a marketplace, if one is published for the security, using the last bid price in the case of a long security and the last ask price in the case 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 day before the relevant date, and after making any adjustments

considered by the registered firm to be necessary to accurately reflect the market value;

- (ii) if no reliable price for the security is quoted on a marketplace, after referring to a published market report or inter-dealer quotation sheet, on the relevant date or last trading day before the relevant date, and after making any adjustments considered by the registered firm to be necessary to accurately reflect the market value;
  - (iii) if the market value for the security cannot be reasonably determined in accordance with subparagraph (i) or (ii), after applying the policy of the registered firm for determining market value, which must include procedures to assess the reliability of valuation inputs and assumptions and provide for
    - (A) the use of inputs that are observable, and
    - (B) the use of unobservable inputs and assumptions, if observable inputs are not reasonably available.
- (2) If a registered firm determines the market value of a security in accordance with subparagraph (1)(b)(iii), when it refers to the value in a statement under sections 14.14 [*account statement*], 14.14.1 [*additional statement*], 14.14.2 [*position cost information*], 14.15 [*security holder statements*] or 14.16 [*scholarship plan dealer statements*], the registered firm 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 value.”*

- (3) If a registered firm reasonably believes that it cannot determine the market value of a security in accordance with subsection (1), the market value of the security must be reported in a statement delivered under sections 14.14 [*account statement*], 14.14.1 [*additional statement*], 14.14.2 [*position cost information*], 14.15 [*security holder statements*] or 14.16 [*scholarship plan dealer statements*] and in an investment performance report delivered under section 14.18 [*investment performance report*] as not determinable, and the market value of the security must be excluded from the calculations in paragraphs 14.14(5)(b), 14.14.1(2)(b) and 14.14.2(5)(a) and subsection 14.19(1) [*content of investment performance report*].

## **14.12 Content and delivery of trade confirmation**

- (1) A registered dealer that has acted on behalf of a client in connection with a purchase or sale of a security must promptly deliver to the client or, if the client

consents in writing, to a registered adviser acting for the client, a written confirmation of the transaction, setting out the following:

- (a) the quantity and description of the security purchased or sold;
- (b) the price per security paid or received by the client;
- (b.1) in the case of a purchase of a debt security, the security's annual yield;
- (c) the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction, and the total amount of all charges in respect of the transaction;
- (c.1) in the case of a purchase or sale of a debt security, either of the following:
  - (i) the total amount of any mark-up or mark-down, commission or other service charges the registered dealer applied to the transaction;
  - (ii) the total amount of any commission charged to the client by the registered dealer and, if the dealer 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:

*“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.”;*
- (d) whether the registered dealer acted as principal or agent;
- (e) the date and the name of the marketplace, if any, on which the transaction took place, or if applicable, a statement that the transaction took place on more than one marketplace or over more than one day;
- (f) the name of the dealing representative, if any, involved in the transaction;
- (g) the settlement date of the transaction;
- (h) if applicable, that the security is a security issued by the registered dealer, a security issued by a related issuer of the registered dealer or, if the transaction occurred during the security's distribution, a security issued by a connected issuer of the registered dealer.

- (2) If a transaction under subsection (1) involved more than one transaction or if the transaction took place on more than one marketplace the information referred to in subsection (1) may be set out in the aggregate if the confirmation also contains a statement that additional details concerning the transaction will be provided to the client upon request and without additional charge.
- (3) Paragraph (1)(h) does not apply if all of the following apply:
  - (a) the security is a security of a mutual fund that is established and managed by the registered dealer or by an affiliate of the registered dealer, in its capacity as investment fund manager of the mutual fund;
  - (b) the names of the dealer and the mutual fund are sufficiently similar to indicate that they are affiliated or related.
- (4) For the purpose of paragraph (1)(f), a dealing representative may be identified by means of a code or symbol if the confirmation also contains a statement that the name of the dealing representative will be provided to the client on request of the client.
- (5) A registered investment fund manager that has executed a redemption order received directly from a security holder must promptly deliver to the security holder a written confirmation of the redemption, setting out the following:
  - (a) the quantity and description of the security redeemed;
  - (b) the price per security received by the client;
  - (c) the commission, sales charge, service charge and any other amount charged in respect of the redemption;
  - (d) the settlement date of the redemption.
- (6) Subsection 14.12 (5) does not apply to trades in a security of an investment fund made on reliance on section 8.6 [*investment fund trades by adviser to managed account*].

### **14.13 Confirmations for certain automatic plans**

The requirement under section 14.12 [*content and delivery of trade confirmation*] to deliver a confirmation promptly does not apply to a registered dealer in respect of a transaction if all of the following apply:

- (a) the client gave the dealer prior written notice that the transaction is made pursuant to the client's participation in an automatic payment plan,

including a dividend reinvestment plan, or an automatic withdrawal plan in which a transaction is made at least monthly;

- (b) the registered dealer delivered a confirmation as required under section 14.12 [*content and delivery of trade confirmation*] for the first transaction made under the plan after receiving the notice referred to in paragraph (a);
- (c) the transaction is in a security of a mutual fund, scholarship plan, educational plan or educational trust.
- (d) [Repealed]

#### **14.14 Account statements**

- (1) A registered dealer must deliver to a client a statement that includes the information referred to in subsections (4) and (5)
  - (a) at least once every 3 months, or
  - (b) if the client has requested receiving statements on a monthly basis, for each one-month period.
- (2) A registered dealer must deliver to a client a statement that includes the information referred to in subsections (4) and (5) after the end of any month in which a transaction was effected in securities held by the dealer in the account, other than a transaction made under an automatic withdrawal plan or an automatic payment plan, including a dividend reinvestment plan.
- (2.1) Paragraph 1(b) and subsection (2) do not apply to a mutual fund dealer in connection with its activities as a dealer in respect of the securities listed in paragraph 7.1(2)(b) [*dealer categories*].
- (3) A registered adviser must deliver to a client a statement that includes the information referred to in subsections (4) and (5) at least once every 3 months, except that if the client has requested receiving statements on a monthly basis, the adviser must deliver a statement to the client for each one-month period.
- (3.1) [Repealed]
- (4) If a registered dealer or registered adviser made a transaction for a client during the period covered by a statement delivered under subsection (1), (2) or (3), the statement must include the following:
  - (a) the date of the transaction;
  - (b) whether the transaction was a purchase, sale or transfer;

- (c) the name of the security;
  - (d) the number of securities;
  - (e) the price per security if the transaction was a purchase or sale;
  - (f) the total value of the transaction if it was a purchase or sale.
- (5) If a registered dealer or registered adviser holds securities owned by a client in an account of the client, a statement delivered under subsection (1), (2) or (3) must indicate that the securities are held for the client by the registered firm and must include the following information about the account determined as at the end of the period for which the statement is made:
- (a) the name and quantity of each security in the account;
  - (b) the market value of each security in the account and, if applicable, the notification in subsection 14.11.1(2) [*determining market value*];
  - (c) the total market value of each security position in the account;
  - (d) any cash balance in the account;
  - (e) the total market value of all cash and securities in the account;
  - (f) whether the account is covered under an investor protection fund approved or recognized by the securities regulatory authority and, if it is, the name of the fund;
  - (g) which securities in the account might be subject to a deferred sales charge if they are sold.
- (6) [Repealed]
- (7) For the purposes of this section, a security is considered to be held by a registered firm for a client if
- (a) the firm is the registered owner of the security as nominee on behalf of the client, or
  - (b) the firm has physical possession of a certificate evidencing ownership of the security.

#### **14.14.1 Additional statements**

- (1) A registered dealer or registered adviser must deliver a statement that includes the information referred to in subsection (2) to a client if any of the following apply in respect of a security owned by the client that is held or controlled by a party other than the dealer or adviser:
  - (a) the dealer or adviser has trading authority over the security or the account of the client in which the security is held or was transacted;
  - (b) the dealer or adviser receives continuing 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;
  - (c) the security is 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 legislation of a jurisdiction of Canada and the dealer or adviser is the dealer or adviser of record for the client on the records of the issuer of the security or the records of the issuer's investment fund manager.
  
- (2) A statement delivered under subsection (1) must include the following in respect of the securities or the account referred to in subsection (1), determined as at the end of the period for which the statement is made:
  - (a) the name and quantity of each security;
  - (b) the market value of each security and, if applicable, the notification in subsection 14.11.1(2) [*determining market value*];
  - (c) the total market value of each security position;
  - (d) any cash balance in the account;
  - (e) the total market value of all of the cash and securities;
  - (f) the name of the party that holds or controls each security and a description of the way it is held;
  - (g) whether the securities are covered under an investor protection fund approved or recognized by the securities regulatory authority and, if they are, the name of the fund;
  - (h) which of the securities might be subject to a deferred sales charge if they are sold.

- (3) If subsection (1) applies to a registered dealer or a registered adviser, the dealer or adviser must deliver a statement that includes the information in subsection (2) to a client at least once every 3 months, except that if a client has requested receiving statements on a monthly basis, the adviser must deliver a statement to the client every month.
- (4) If subsection (1) applies to a registered dealer or a registered adviser that is also required to deliver a statement to a client under subsection 14.14(1) or (3), a statement delivered under subsection (1) must be delivered to the client in one of the following ways:
  - (a) combined with a statement delivered to the client under subsection 14.14(1) or (3) for the period ending on the same date;
  - (b) as a separate document accompanying a statement delivered to the client under subsection 14.14(1) or (3) for the period ending on the same date;
  - (c) as a separate document delivered within 10 days after the statement delivered to the client under subsection 14.14(1) or (3) for the period ending on the same date.
- (5) For the purposes of this section, a security is considered to be held for a client by a party other than the registered firm if any of the following apply:
  - (a) the other party is the registered owner of the security as nominee on behalf of the client;
  - (b) ownership of the security is recorded on the books of its issuer in the client's name;
  - (c) the other party has physical possession of a certificate evidencing ownership of the security;
  - (d) the client has physical possession of a certificate evidencing ownership of the security.
- (6) This section does not apply to a registered firm in respect of a permitted client that is not an individual.

#### **14.14.2 Position cost information**

- (1) If a registered dealer or registered adviser is required to deliver a statement to a client that includes information required under subsection 14.14(5) [*account statements*] or 14.14.1(2) [*additional statements*], the dealer or adviser must deliver the information referred to in subsection (2) to a client at least once every 3 months.



- (2) The information delivered under subsection (1) must disclose the following:
  - (a) for each security position in the statement opened on or after July 15, 2015,
    - (i) the cost of the position, determined as at the end of the period for which the information under subsection 14.14(5) or 14.14.1(2) is provided, presented on an average cost per unit or share basis or on an aggregate basis, or
    - (ii) if the security position was transferred from another registered firm, the information referred to in subparagraph (i) or the market value of the security position as at the date of the position's transfer if it is also disclosed to the client in the statement that it is the market value as of the transfer date, not the cost of the security position, that is being disclosed;
  - (b) for each security position in the statement opened before July 15, 2015,
    - (i) the cost of the position, determined as at the end of the period for which the information under subsection 14.14(5) or 14.14.1(2) is provided, presented on an average cost per unit or share basis or on an aggregate basis, or
    - (ii) the market value of the security position as at July 15, 2015 or an earlier date, if the same date and value are used for all clients of the firm holding that security and it is also disclosed to the client in the statement that it is the market value as of that date, not the cost of the security position, that is being disclosed;
  - (c) the total cost of all of the security positions in the statement, determined in accordance with paragraphs (a) and (b);
  - (d) for each security position for which the registered firm reasonably believes it cannot determine the cost in accordance with paragraphs (a) and (b), disclosure of that fact in the statement.
- (3) The cost of security positions required to be disclosed under subsection (2) must be either the book cost or the original cost and must be accompanied by the definition of "book cost" in section 1.1 [*definitions of terms used throughout this Instrument*] or the definition of "original cost" in section 1.1, as applicable.

- (4) The information delivered under subsection (1) must be delivered to the client in one of the following ways:
  - (a) combined with a statement delivered to the client that includes information required under subsection 14.14(5) or 14.14.1(2) for the period ending on the same date;
  - (b) in a separate document accompanying a statement delivered to the client that includes information required under subsection 14.14(5) or 14.14.1(2) for the period ending on the same date;
  - (c) in a separate document delivered within 10 days after a statement delivered to the client that includes information required under subsection 14.14(5) or 14.14.1(2) for the period ending on the same date.
- (5) If the information under subsection (1) is delivered to the client in a separate document in accordance with paragraph 4(c), the separate document must also include the following:
  - (a) the market value of each security in the statement and, if applicable, the notification in subsection 14.11.1(2) [*determining market value*];
  - (b) the total market value of each security position in the statement;
  - (c) the total market value of all cash and securities in the statement.
- (6) This section does not apply to a registered firm in respect of a permitted client that is not an individual.

#### **14.15 Security holder statements**

If there is no dealer or adviser of record for a security holder on the records of a registered investment fund manager, the investment fund manager must deliver to the security holder at least once every 12 months a statement that includes the following:

- (a) the information required under subsection 14.14(4) [*account statements*] for each transaction that the registered investment fund manager made for the security holder during the period;
- (b) the information required under subsection 14.14.1(2) [*additional statements*] for the securities of the security holder that are on the records of the registered investment fund manager;
- (c) the information required under section 14.14.2 [*position cost information*].

#### **14.16 Scholarship plan dealer statements**

Sections 14.14 [*account statements*], 14.14.1 [*additional statements*] and 14.14.2 [*position cost information*] do not apply to a scholarship plan dealer if both of the following apply:

- (a) the scholarship plan dealer is not registered in another dealer or adviser category;
- (b) the scholarship plan dealer delivers to a client a statement at least once every 12 months that provides the information required under subsections 14.14(4) and 14.14.1(2).

#### **14.17 Report on charges and other compensation**

- (1) For each 12-month period, a registered firm must deliver a report on charges and other compensation containing the following information to a client, except that the first report delivered after a client has opened an account may cover a period of less than 12 months:
  - (a) the registered firm's current operating charges which might be applicable to the client's account;
  - (b) the total amount of each type of operating charge related to the account paid by the client during the period covered by the report, and the aggregate amount of those charges;
  - (c) 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, and the aggregate amount of those charges;
  - (d) the total amount of the operating charges reported under paragraph (b) and the transaction charges reported under paragraph (c);
  - (e) if the registered firm purchased or sold debt securities for the client during the period covered by the report, either of the following:
    - (i) the total amount of any mark-ups, mark-downs, commissions or other service charges the firm applied on the purchases or sales of debt securities;
    - (ii) the total amount of any commissions charged to the client by the firm on the purchases or sales of debt securities and, if the firm applied mark-ups, mark-downs or any service 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 you received (in the case of a sale). This amount was in addition to any commissions you were charged.”;*

- (f) if the registered firm is a scholarship plan dealer, the unpaid amount of any enrolment fee or other charge that is payable by the client;
- (g) the total amount of each type of payment other than a trailing commission that is made to the registered firm or any of its registered individuals by a securities issuer or another registrant in relation to registerable services to the client during the period covered by the report, accompanied by an explanation of each type of payment;
- (h) if the registered firm 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 to the following:

*“We received \$[amount] in trailing commissions in respect of securities you owned during the 12-month 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 service and advice we provide you. The amount of the trailing commissions 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.”*

- (2) For the purposes of this section, the information in respect of securities of a client required to be reported under subsection 14.14(5) [*account statements*] must be delivered in a separate report on charges and other compensation for each account of the client.
- (3) For the purposes of this section, the information in respect of securities of a client required to be reported under subsection 14.14.1(1) [*additional statements*] must be delivered in a report on charges and other compensation for the account of the client through which they were transacted.
- (4) Subsections (2) and (3) do not apply if the registered firm provides a report on charges and other compensation that consolidates into a single report the required information for more than one of a client’s accounts and any information in respect of the securities of the client required to be reported under subsection 14.14(5) or 14.14.1(1) and if the following apply:

- (a) the client has consented in writing to the form of disclosure referred to in this subsection;
  - (b) the consolidated report specifies the accounts and securities with respect to which information is required to be reported under subsection 14.14.1(1) [*additional statements*].
- (5) This section does not apply to a registrant in respect of a permitted client that is not an individual.

#### **14.18 Investment performance report**

- (1) A registered firm must deliver an investment performance report to a client every 12 months, except that the first report delivered after a registered firm first makes a trade for a client may be sent within 24 months after the trade.
- (2) For the purposes of this section, the information in respect of securities of a client required to be reported under subsection 14.14(5) [*account statements*] must be delivered in a separate report for each account of the client.
- (3) For the purposes of this section, the information in respect of securities of a client required to be reported under subsection 14.14.1(1) [*additional statements*] must be delivered in the report for each account of the client through which the securities were transacted.
- (4) Subsections (2) and (3) do not apply if the registered firm provides a report that consolidates into a single report the required information for more than one of a client's accounts and any information in respect of securities of the client required to be reported under subsection 14.14(5) or 14.14.1(1) and if the following apply:
- (a) the client has consented in writing to the form of disclosure referred to in this subsection;
  - (b) the consolidated report specifies the accounts and securities with respect to which information is required to be reported under subsection 14.14.1(1) [*additional statements*].
- (5) This section does not apply to
- (a) an account that has existed for less than a 12-month period;
  - (b) a registered dealer in respect of an account in which the dealer executes trades only as directed by a registered adviser acting for the client; and
  - (c) a registered firm in respect of a permitted client that is not an individual.

- (6) If a registered firm reasonably believes there are no securities of a client with respect to which information is required to be reported under subsection 14.14(5) [*account statements*] or subsection 14.14.1(1) [*additional statements*] and for which a market value can be determined, the firm is not required to deliver a report to the client for the period.

#### **14.19 Content of investment performance report**

- (1) An investment performance report required to be delivered under section 14.18 by a registered firm must include all of the following in respect of the securities referenced in a statement in respect of which subsection 14.14(1), (2) or (3) [*account statements*] or 14.14.1(1) [*additional statements*] apply:
  - (a) the market value of all cash and securities in the client's account as at the beginning of the 12-month period covered by the investment performance report;
  - (b) the market value of all cash and securities in the account as at the end of the 12-month period covered by the investment performance report;
  - (c) the market value of all deposits and transfers of cash and securities into the account, and the market value of all withdrawals and transfers of cash and securities out of the account, in the 12-month period covered by the investment performance report;
  - (d) subject to paragraph (e), the market value of all deposits and transfers of cash and securities into the account, and the market value of all withdrawals and transfers of cash and securities out of the account, since account opening;
  - (e) if the account was opened before July 15, 2015 and the registered firm reasonably believes market values are not available for all deposits, withdrawals and transfers since the account was opened, the following:
    - (i) the market value of all cash and securities in the client's account as at July 15, 2015;
    - (ii) the market value of all deposits and transfers of cash and securities into the account, and the market value of all withdrawals and transfers of cash and securities out of the account, since July 15, 2015;

- (f) the annual change in the market value of the account for the 12-month period covered by the investment performance report, determined using the following formula

$$A - B - C + D$$

where

- A = the market value of all cash and securities in the account as at the end of the 12-month period covered by the investment performance report,
- B = the market value of all cash and securities in the account at the beginning of that 12-month period,
- C = the market value of all deposits and transfers of cash and securities into the account in that 12-month period, and
- D = the market value of all withdrawals and transfers of cash and securities out of the account in that 12-month period;

- (g) subject to paragraph (h), the cumulative change in the market value of the account since account opening determined using the following formula

$$A - E + F$$

where

- A = the market value of all cash and securities in the account as at the end of the 12-month period covered by the investment performance report,
- E = the market value of all deposits and transfers of cash and securities into the account since account opening, and
- F = the market value of all withdrawals and transfers of cash and securities out of the account since account opening;

- (h) if the registered firm reasonably believes the market value of all deposits and transfers of cash and securities into the account since account opening or the market value of all withdrawals and transfers of cash and securities out of the account since account opening required in paragraph (g) is not available to the registered firm, the cumulative change in the market value of the account determined using the following formula

$$A - G - H + I$$

where

A = the market value of all cash and securities in the account as at the end of the 12-month period covered by the investment performance report,

G = the market value of all cash and securities in the account as at July 15, 2015,

H = the market value of all deposits and transfers of cash and securities into the account since July 15, 2015, and

I = the market value of all withdrawals and transfers of cash and securities out of the account since July 15, 2015;

- (i) the amount of the annualized total percentage return for the client's account calculated net of charges, using a money-weighted rate of return calculation method generally accepted in the securities industry;
  - (j) the definition of "total percentage return" in section 1.1 and a notification indicating the following:
    - (i) that the total percentage return in the investment performance report was calculated net of charges;
    - (ii) the calculation method used;
    - (iii) a general explanation in plain language of what the calculation method takes into account.
- (2) The information delivered for the purposes of paragraph (1)(i) must be provided for each of the following periods:
- (a) the 12-month period covered by the investment performance report;
  - (b) the 3-year period preceding the end of the 12-month period covered by the report;
  - (c) the 5-year period preceding the end of the 12-month period covered by the report;
  - (d) the 10-year period preceding the end of the 12-month period covered by the report;



- (e) the period since the account was opened if the account has been open for more than one year before the date of the report or, if the account was opened before July 15, 2015 and the registered firm reasonably believes the annualized total percentage return for the period before July 15, 2015 is not available, the period since July 15, 2015.
- (3) Despite subsection (2), if any portion of a period referred to in paragraph (2)(b), (c) or (d) was before July 15, 2015, the registered firm is not required to report the annualized total percentage return for that period.
- (4) Despite subsection (1), the information a scholarship plan dealer is required to deliver under section 14.18 [*investment performance report*] in respect of each scholarship plan in which a client has invested through the scholarship plan dealer is the following:
  - (a) the total amount that the client has invested in the plan as at the date of the investment performance report;
  - (b) the total amount that would be returned to the client if, as at the date of the investment performance report, the client ceased to make prescribed payments into the plan;
  - (c) a reasonable projection of future payments that the plan might pay to the client's designated beneficiary under the plan, or the client, upon the maturity of the client's investment in the plan;
  - (d) a summary of any terms of the plan that, if not met by the client or the client's designated beneficiary under the plan, might cause the client or the designated beneficiary to suffer a loss of contributions, earnings or government contributions in the plan.
- (5) The information delivered under section 14.18 [*investment performance report*] must be presented using text, tables and charts, and must be accompanied by notes in the investment performance report explaining
  - (a) the content of the report and how a client can use the information to assess the performance of the client's investments; and
  - (b) the changing value of the client's investments as reflected in the information in the report.
- (6) If a registered firm delivers information required under this section in a report to a client for a period of less than one year, the firm must not calculate the disclosed information on an annualized basis.

- (7) If the registered firm reasonably believes the market value cannot be determined for a security position, the market value must be assigned a value of zero in the calculation of the information delivered under subsection 14.18(1) and the fact that its market value could not be determined must be disclosed to the client.

#### **14.20 Delivery of report on charges and other compensation and investment performance report**

- (1) A report under section 14.17 [*report on charges and other compensation*] and a report under section 14.18 [*investment performance report*] must include information for the same 12-month period and the reports must be delivered together in one of the following ways:
  - (a) combined with a statement delivered to the client that includes information required under subsection 14.14(1), (2) or (3) [*account statements*], subsection 14.14.1(2) [*additional statements*] or section 14.16 [*scholarship plan dealer statements*];
  - (b) accompanying a statement delivered to the client that includes information required under subsection 14.14(1), (2) or (3) [*account statements*], subsection 14.14.1(2) [*additional statements*] or section 14.16 [*scholarship plan dealer statements*];
  - (c) within 10 days after a statement delivered to the client that includes information required under subsection 14.14(1),(2) or (3) [*account statements*], subsection 14.14.1(2) [*additional statements*] or section 14.16 [*scholarship plan dealer statements*].
- (2) Subsection (1) does not apply in respect of the first report under section 14.17 [*report on charges and other compensation*] and the first report under section 14.18 [*investment performance report*] for a client.

### **PART 15 - GRANTING AN EXEMPTION**

#### **15.1 Who can grant an exemption**

- (1) The regulator or the securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.
- (2) Despite subsection (1), in Ontario only the regulator may grant such an exemption.

- (3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of National Instrument 14-101 *Definitions* opposite the name of the local jurisdiction.

## **PART 16 - TRANSITION**

**16.1 [Lapsed]**

**16.2 [Lapsed]**

**16.3 [Lapsed]**

**16.4 [Repealed]**

**16.5 [Repealed]**

**16.6 [Repealed]**

**16.7 [Lapsed]**

**16.8 [Lapsed]**

### **16.9 Registration of chief compliance officers**

(1) [Lapsed]

- (2) If an individual applies to be registered as the chief compliance officer of a registered firm within 3 months after this Instrument comes into force and the individual was identified on the National Registration Database as the firm's compliance officer in a jurisdiction of Canada on the date this Instrument came into force, the following sections do not apply in respect of the individual so long as he or she remains registered as the firm's chief compliance officer:

- (a) section 3.6 [*mutual fund dealer – chief compliance officer*], if the registered firm is a mutual fund dealer;
- (b) section 3.8 [*scholarship plan dealer – chief compliance officer*], if the registered firm is a scholarship plan dealer;
- (c) section 3.10 [*exempt market dealer – chief compliance officer*], if the registered firm is an exempt market dealer;

(d) section 3.13 [*portfolio manager – chief compliance officer*], if the registered firm is a portfolio manager.

(3) [Lapsed]

(4) [Lapsed]

#### **16.10 Proficiency for dealing and advising representatives**

If an individual is registered in a jurisdiction of Canada as a dealing or advising representative in a category referred to in a section of Division 2 [*education and experience requirements*] of Part 3 on the day this Instrument comes into force, that section does not apply to the individual so long as the individual remains registered in the category.

#### **16.11 [Repealed]**

#### **16.12 Continuation of existing discretionary relief**

A person or company that was entitled to rely on an exemption, waiver or approval granted to it by a regulator or securities regulatory authority relating to a requirement under securities legislation or securities directions existing immediately before this Instrument came into force is exempt from any substantially similar provision of this Instrument to the same extent and on the same conditions, if any, as contained in the exemption, waiver or approval.

#### **16.13 [Repealed]**

#### **16.14 [Repealed]**

#### **16.15 [Repealed]**

#### **16.16 [Repealed]**

#### **16.17 [Repealed]**

#### **16.18 [Lapsed]**

#### **16.19 [Lapsed]**

#### **16.20 [Lapsed]**

### **PART 17 - WHEN THIS INSTRUMENT COMES INTO FORCE**

#### **17.1 Effective date**

- (1) Except in Ontario, this Instrument comes into force on September 28, 2009.
- (2) In Ontario, this Instrument comes into force on the later of the following:
  - (a) September 28, 2009;
  - (b) the day on which sections 4, 5 and subsections 20(1) to (11) of Schedule 26 of the *Budget Measures Act, 2009* are proclaimed in force.

*[as amended January 1, 2011, July 11, 2011, February 28, 2012, May 31, 2013, July 15, 2013 (incorporating transitional provisions effective July 15, 2014, July 15, 2015 and July 15, 2016), May 1, 2014, September 22, 2014, October 31, 2014, January 11, 2015, May 5, 2015, December 1, 2016, February 1, 2017 and local amendments in New Brunswick as described in CSA Notice 11-334]*

## APPENDIX A

### BONDING AND INSURANCE CLAUSES

*(section 12.3 [insurance – dealer], section 12.4 [insurance – adviser]  
and section 12.5 [insurance – investment fund manager])*

Clause	Name of Clause	Details
A	Fidelity	This clause insures against any loss through dishonest or fraudulent act of employees.
B	On Premises	This clause insures against any loss of money and securities or other property through robbery, burglary, theft, hold-up, or other fraudulent means, mysterious disappearance, damage or destruction while within any of the insured's offices, the offices of any banking institution or clearing house or within any recognized place of safe-deposit.
C	In Transit	This clause insures against any loss of money and securities or other property through robbery, burglary, theft, hold-up, misplacement, mysterious disappearance, damage or destruction, while in transit in the custody of any employee or any person acting as messenger except while in the mail or with a carrier for hire other than an armoured motor vehicle company.
D	Forgery or Alterations	This clause insures against any loss through forgery or alteration of any cheques, drafts, promissory notes or other written orders or directions to pay sums in money, excluding securities.
E	Securities	This clause insures against any loss through having purchased or acquired, sold or delivered, or extended any credit or acted upon securities or other written instruments which prove to have been forged, counterfeited, raised or altered, or lost or stolen, or through having guaranteed in writing or witnessed any signatures upon any transfers, assignments or other documents or written instruments.

**APPENDIX B**

**SUBORDINATION AGREEMENT**

*(Line 5 of Form 31-103F1 Calculation of excess working capital)*

**SUBORDINATION AGREEMENT**

**THIS AGREEMENT** is made as of the \_\_\_\_ day of \_\_\_\_\_, 20\_\_

**BETWEEN:**

*[insert name]*

(the “**Lender**”)

**AND**

*[insert name]*

(the “**Registered Firm**”, which term shall include all successors and assigns of the Registered Firm)

(collectively, the “**Parties**”)

**This Agreement** is entered into by the Parties under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“**NI 31-103**”) in connection with a loan made on the \_\_\_\_ day of \_\_\_\_\_, 20\_\_ by the Lender to the Registered Firm in the amount of \$ \_\_\_\_\_ (the “**Loan**”) for the purpose of allowing the Registered Firm to carry on its business.

**For good and valuable consideration**, the Parties agree as follows:

**1. Subordination**

The repayment of the loan and all amounts owed thereunder are subordinate to the claims of the other creditors of the Registered Firm.

**2. Dissolution, winding-up, liquidation, insolvency or bankruptcy of the Registered Firm**

In the event of the dissolution, winding-up, liquidation, insolvency or bankruptcy of the Registered Firm:

- (a) the creditors of the Registered Firm shall be paid their existing claims in full in priority to the claims of the Lender;

- (b) the Lender shall not be entitled to make any claim upon any property belonging or having belonged to the Registered Firm, including asserting the right to receive any payment in respect to the Loan, before the existing claims of the other creditors of the Registered Firm have been settled.

**3. Terms and conditions of the Loan**

During the term of this Agreement:

- (a) interest can be paid at the agreed upon rate and time, provided that the payment of such interest does not result in a capital deficiency under NI 31-103;
- (b) any loan or advance or posting of security for a loan or advance by the Registered Firm to the Lender, shall be deemed to be a payment on account of the Loan.

**4. Notice to the Securities Regulatory Authority**

The Registered Firm must notify the Securities Regulatory Authority 10 days before the full or partial repayment of the loan. Further documentation may be requested by the Securities Regulatory Authority after receiving the notice from the Registered Firm.

**5. Termination of this Agreement**

This Agreement may only be terminated by the Lender once the notice required pursuant to Section 4 of this Agreement is received by the Securities Regulatory Authority.

The Parties have executed and delivered this Agreement as of the date set out above.

**[Registered Firm]**

\_\_\_\_\_  
Authorized signatory

\_\_\_\_\_  
Authorized signatory

**[Lender]**

\_\_\_\_\_  
Authorized signatory

\_\_\_\_\_  
Authorized signatory



**APPENDIX C – [LAPSED]**

**APPENDIX D – [LAPSED]**

**APPENDIX E – [LAPSED]**

**APPENDIX F – [LAPSED]**

**APPENDIX G**

**EXEMPTIONS FROM CERTAIN REQUIREMENTS FOR IROC MEMBERS**

**(Section 9.3 [exemptions from certain requirements for IROC members])**

<b>NI 31-103 Provision</b>	<b>IROC Provision</b>
section 12.1 [ <i>capital requirements</i> ]	1. Dealer Member Rule 17.1; and 2. Form 1 <i>Joint Regulatory Financial Questionnaire and Report - Part I, Statement B, “Notes and Instructions”</i>
section 12.2 [ <i>subordination agreement</i> ]	1. Dealer Member Rule 5.2; and 2. Dealer Member Rule 5.2A
section 12.3 [ <i>insurance – dealer</i> ]	1. Dealer Member Rule 400.2 [ <i>Financial Institution Bond</i> ]; 2. Dealer Member Rule 400.4 [ <i>Amounts Required</i> ]; and 3. Dealer Member Rule 400.5 [ <i>Provisos with respect to Dealer Member Rules 400.2, 400.3 and 400.4</i> ]
section 12.6 [ <i>global bonding or insurance</i> ]	1. Dealer Member Rule 400.7 [ <i>Global Financial Institution Bonds</i> ]
section 12.7 [ <i>notifying the regulator of a change, claim or cancellation</i> ]	1. Dealer Member Rule 17.6; 2. Dealer Member Rule 400.3 [ <i>Notice of Termination</i> ]; and 3. Dealer Member Rule 400.3B [ <i>Termination or Cancellation</i> ]
section 12.10 [ <i>annual financial statements</i> ]	1. Dealer Member Rule 16.2 [ <i>Dealer Member Filing Requirements</i> ]; and 2. Form 1 <i>Joint Regulatory Financial Questionnaire and Report</i>
section 12.11 [ <i>interim financial information</i> ]	1. Dealer Member Rule 16.2 [ <i>Dealer Member Filing Requirements</i> ]; and 2. Form 1 <i>Joint Regulatory Financial Questionnaire and Report</i>
section 12.12 [ <i>delivering financial information – dealer</i> ]	1. Dealer Member Rule 16.2 [ <i>Dealer Member Filing Requirements</i> ]
subsection 13.2(3) [ <i>know your client</i> ]	1. Dealer Member Rule 1300.1(a)-(n) [ <i>Identity and Creditworthiness</i> ]; 2. Dealer Member Rule 1300.2; 3. Dealer Member Rule 2500, Section II [ <i>Opening New Accounts</i> ]; and 4. Form 2 <i>New Client Application Form</i>

<p>section 13.3 <i>[suitability]</i></p>	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 1300.1(o) <i>[Business Conduct]</i>;</li> <li>2. Dealer Member Rule 1300.1(p) <i>[Suitability Generally]</i>;</li> <li>3. Dealer Member Rule 1300.1(q) <i>[Suitability Determination Required When Recommendation Provided]</i>;</li> <li>4. Dealer Member Rule 1300.1(r) and Dealer Member Rule 1300.1(s) <i>[Suitability Determination Not Required]</i>;</li> <li>5. Dealer Member Rule 1300.1(t) <i>[Corporation Approval]</i>;</li> <li>6. Dealer Member Rule 2700, Section I <i>[Customer Suitability]</i>; and</li> <li>7. Dealer Member Rule 3200 <i>[Minimum Requirements for Dealer Members Seeking Approval Under Rule 1300.1(t) for Suitability Relief for Trades not Recommended by the Member]</i></li> </ol>
<p>section 13.12 <i>[restriction on lending to clients]</i></p>	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 100 <i>[Margin Requirements]</i></li> </ol>
<p>section 13.13 <i>[disclosure when recommending the use of borrowed money]</i></p>	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 29.26</li> </ol>
<p>section 13.15 <i>[handling complaints]</i></p>	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 2500B <i>[Client Complaint Handling]</i>; and</li> <li>2. Dealer Member Rule 2500, Section VIII <i>[Client Complaints]</i></li> </ol>
<p>subsection 14.2(2) <i>[relationship disclosure information]</i></p>	<ol style="list-style-type: none"> <li>1. Dealer Member Rules of IIROC that set out the requirements for relationship disclosure information similar to those contained in IIROC's Client Relationship Model proposal, published for comment on January 7, 2011;</li> <li>2. Dealer Member Rule 29.8;</li> <li>3. Dealer Member Rule 200.1(c);</li> <li>4. Dealer Member Rule 200.1(h);</li> <li>5. Dealer Member Rule 1300.1(p) <i>[Suitability Generally]</i>;</li> <li>6. Dealer Member Rule 1300.1(q) <i>[Suitability Determination Required When Recommendation Provided]</i>;</li> <li>7. Dealer Member Rule 1300.2; and</li> <li>8. Dealer Member Rule 2500B, Part 4 <i>[Complaint procedures / standards]</i></li> <li>9. Dealer Member Rule 3500 <i>[Relationship Disclosure]</i></li> </ol>

section 14.6 [ <i>holding client assets in trust</i> ]	1. Dealer Member Rule 17.3
section 14.8 [ <i>securities subject to a safekeeping agreement</i> ]	1. Dealer Member Rule 17.2A 2. Dealer Member Rule 2600 – Internal Control Policy Statement 5 [ <i>Safekeeping of Clients' Securities</i> ]
section 14.9 [ <i>securities not subject to a safekeeping agreement</i> ]	1. Dealer Member Rule 17.3; 2. Dealer Member Rule 17.3A; and 3. Dealer Member Rule 200.1(c)
section 14.12 [ <i>content and delivery of trade confirmation</i> ]	1. Dealer Member Rule 200.1(h)

**APPENDIX H**

**EXEMPTIONS FROM CERTAIN REQUIREMENTS FOR MFDA MEMBERS**

**(Section 9.4 [exemptions from certain requirements for MFDA members])**

<b>NI 31-103 Provision</b>	<b>MFDA Provision</b>
section 12.1 [ <i>capital requirements</i> ]	<ol style="list-style-type: none"> <li>1. Rule 3.1.1 [<i>Minimum Levels</i>];</li> <li>2. Rule 3.1.2 [<i>Notice</i>];</li> <li>3. Rule 3.2.2 [<i>Member Capital</i>];</li> <li>4. Form 1 MFDA Financial Questionnaire and Report; and</li> <li>5. Policy No. 4 [<i>Internal Control Policy Statements – Policy Statement 2: Capital Adequacy</i>]</li> </ol>
section 12.2 [ <i>subordination agreement</i> ]	<ol style="list-style-type: none"> <li>1. Form 1 MFDA Financial Questionnaire and Report, Statement F [<i>Statement of Changes in Subordinated Loans</i>]; and</li> <li>2. Membership Application Package – Schedule I (Subordinated Loan Agreement)</li> </ol>
section 12.3 [ <i>insurance – dealer</i> ]	<ol style="list-style-type: none"> <li>1. Rule 4.1 [<i>Financial Institution Bond</i>];</li> <li>2. Rule 4.4 [<i>Amounts Required</i>];</li> <li>3. Rule 4.5 [<i>Provisos</i>]; and</li> <li>4. Policy No. 4 [<i>Internal Control Policy Statements – Policy Statement 3: Insurance</i>]</li> </ol>
section 12.6 [ <i>global bonding or insurance</i> ]	<ol style="list-style-type: none"> <li>1. Rule 4.7 [<i>Global Financial Institution Bonds</i>]</li> </ol>
section 12.7 [ <i>notifying the regulator of a change, claim or cancellation</i> ]	<ol style="list-style-type: none"> <li>1. Rule 4.2 [<i>Notice of Termination</i>]; and</li> <li>2. Rule 4.3 [<i>Termination or Cancellation</i>]</li> </ol>
section 12.10 [ <i>annual financial statements</i> ]	<ol style="list-style-type: none"> <li>1. Rule 3.5.1 [<i>Monthly and Annual</i>];</li> <li>2. Rule 3.5.2 [<i>Combined Financial Statements</i>]; and</li> <li>3. Form 1 MFDA Financial Questionnaire and Report</li> </ol>
section 12.11 [ <i>interim financial information</i> ]	<ol style="list-style-type: none"> <li>1. Rule 3.5.1 [<i>Monthly and Annual</i>];</li> <li>2. Rule 3.5.2 [<i>Combined Financial Statements</i>]; and</li> <li>3. Form 1 MFDA Financial Questionnaire and Report</li> </ol>
section 12.12 [ <i>delivering financial information – dealer</i> ]	<ol style="list-style-type: none"> <li>1. Rule 3.5.1 [<i>Monthly and Annual</i>]</li> </ol>
section 13.3 [ <i>suitability</i> ]	<ol style="list-style-type: none"> <li>1. Rule 2.2.1 [<i>“Know-Your-Client”</i>]; and</li> <li>2. Policy No. 2 [<i>Minimum Standards for Account Supervision</i>]</li> </ol>
section 13.12 [ <i>restriction on lending to clients</i> ]	<ol style="list-style-type: none"> <li>1. Rule 3.2.1 [<i>Client Lending and Margin</i>]; and</li> <li>2. Rule 3.2.3 [<i>Advancing Mutual Fund Redemption Proceeds</i>]</li> </ol>



section 13.13 <i>[disclosure when recommending the use of borrowed money]</i>	1. Rule 2.6 <i>[Borrowing for Securities Purchases]</i>
section 13.15 <i>[handling complaints]</i>	1. Rule 2.11 <i>[Complaints]</i> 2. Policy No. 3 <i>[Complaint Handling, Supervisory Investigations and Internal Discipline]</i> ; and 3. Policy No. 6 <i>[Information Reporting Requirements]</i>
subsection 14.2(2) <i>[relationship disclosure information]</i>	1. Rule 2.2.5 <i>[Relationship Disclosure]</i>
section 14.6 <i>[holding client assets in trust]</i>	1. Rule 3.3.1 <i>[General]</i> ; 2. Rule 3.3.2 <i>[Cash]</i> ; and 3. Policy No. 4 <i>[Internal Control Policy Statements – Policy Statement 4: Cash and Securities, and Policy Statement 5: Segregation of Clients’ Securities]</i>
section 14.8 <i>[securities subject to a safekeeping agreement]</i>	1. Rule 3.3.3 <i>[Securities]</i> ; and 2. Policy No. 4 <i>[Internal Control Policy Statements – Policy Statement 4: Cash and Securities, and Policy Statement 5: Segregation of Clients’ Securities]</i>
section 14.9 <i>[securities not subject to a safekeeping agreement]</i>	1. Rule 3.3.3 <i>[Securities]</i>
section 14.12 <i>[content and delivery of trade confirmation]</i>	1. Rule 5.4.1 <i>[Delivery of Confirmations]</i> ; 2. Rule 5.4.2 <i>[Automatic Payment Plans]</i> ; and 3. Rule 5.4.3 <i>[Content]</i>