

**CSA Notice and Request for Comment****Proposed Amendments to****National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*****and Changes to****Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations*****to Enhance Protection of Older and Vulnerable Clients**

**March 5, 2020**

**Introduction**

The Canadian Securities Administrators (the **CSA** or **we**) are publishing, for a 90-day comment period, proposed amendments (the **Proposed Amendments**) to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103** or the **Rule**) and Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**31-103CP**, together the **Instrument**). We are proposing amendments to the provisions of the Instrument relating to business operations and client relationships in order to enhance investor protection by addressing issues of financial exploitation and diminished mental capacity of older and vulnerable clients.

The CSA worked together with the Investment Industry Regulatory Organization of Canada (**IIROC**) and the Mutual Fund Dealers Association of Canada (**MFDA**) (together referred to as the self-regulatory organizations or the **SROs**) to develop the Proposed Amendments. The Proposed Amendments would apply to all registered firms, including IIROC Dealer Members and MFDA Members. We encourage all registrants, including SRO members, to provide their comments on the Proposed Amendments. At a later date, the SROs may propose conforming amendments to SRO rules consistent with the CSA Rule.

This notice contains the following annexes:

- Annex A – Proposed Amendments to NI 31-103
- Annex B – Blackline showing changes to NI 31-103
- Annex C – Changes to 31-103CP

This notice will also be available on the following websites of CSA jurisdictions:

[www.lautorite.qc.ca](http://www.lautorite.qc.ca)  
[www.albertasecurities.com](http://www.albertasecurities.com)  
[www.bcsc.bc.ca](http://www.bcsc.bc.ca)  
[www.fcnc.ca](http://www.fcnc.ca)  
[nssc.novascotia.ca](http://nssc.novascotia.ca)  
[www.osc.gov.on.ca](http://www.osc.gov.on.ca)  
[www.fcaa.gov.sk.ca](http://www.fcaa.gov.sk.ca)  
[www.mbsecurities.ca](http://www.mbsecurities.ca)

### **Substance and Purpose**

The Proposed Amendments are part of the CSA's initiative to enhance investor protection by addressing issues of financial exploitation and diminished mental capacity of older and vulnerable clients.

### ***Trusted Contact Person***

The Proposed Amendments will require registrants to take reasonable steps to obtain the name and contact information of a trusted contact person (**TCP**), as well as the client's written consent to contact the TCP in prescribed circumstances.

The TCP is intended to be a resource for registrants to assist in protecting their clients against possible financial exploitation or if there are concerns about a client's mental capacity. The Proposed Amendments do not prevent registrants from opening and maintaining an account if a client refuses or fails to identify a TCP as long as the registrant takes reasonable steps to obtain the information.

### ***Temporary Holds***

In addition, the Proposed Amendments will:

- not prohibit registered firms and registered individuals from placing a temporary hold on the purchase or sale of a security or withdrawal or transfer of cash or securities from a client's account, if the registered firm reasonably believes that either:
  - a vulnerable client is being financially exploited, or
  - with respect to an instruction given by the client, the client does not have the mental capacity to make financial decisions, and
- require registered firms to take certain prescribed steps if they place a temporary hold in the above noted circumstances.

We believe that the Proposed Amendments provide an appropriate balance between a client's autonomy and investor protection, given that registered firms must have a reasonable belief of financial exploitation of a vulnerable client or lack of mental capacity of a client before placing a

temporary hold. We also believe that the Proposed Amendments clarify how firms must proceed if they do place a temporary hold in such circumstances, and that these are steps they must take in order to meet their duty to deal fairly, honestly and in good faith with their clients.

For greater certainty, Canadian securities legislation does not otherwise prevent a firm from placing a hold on a client's account that it is legally entitled to place.

We acknowledge that there are other circumstances under which a firm might place a hold on a transaction, withdrawal or transfer. The Proposed Amendments do not address these circumstances.

In addition, we note that the Proposed Amendments are not intended to create an obligation to place a temporary hold; however, we recognize that firms may be legally required to place holds in certain circumstances.

## **Background**

Canadians are living longer than ever before, and older Canadians are increasingly making up a greater proportion of the total population.<sup>1</sup> As investors live longer, there is a greater need for targeted financial advice and strategies associated with aging,<sup>2</sup> as well as the need to be more attuned to the sometimes-subtle changes clients may present as they age.

Registrants can be among the first to notice signs of vulnerability, diminished mental capacity and financial exploitation because of interactions they have with their clients and the knowledge they acquire through the client relationship.

Unfortunately, older Canadians are at a heightened risk of losing money to fraud and abuse. A study commissioned by the CSA in 2017 revealed that Canadians aged 65 or older are the likeliest age group to report being the victims of financial fraud.<sup>3</sup> At the same time, many older Canadians are also at risk of financial abuse. This can take the form of theft, misuse or underuse of funds intended for care and other household expenses, or abuses of a power of attorney or other authority over the older person's decision-making. A 2015 national study on the mistreatment of older Canadians found that 2.6 per cent of Canadians aged 65 or older, representing 244,176 Canadians, reported having been a victim of financial abuse in the 12 months prior to when they were interviewed.<sup>4</sup> This made financial abuse the second most common form of elder abuse in Canada.<sup>5</sup>

Diminished mental capacity also has the potential to endanger the financial security of investors. As the human body ages, it is normal for changes in the brain to take place. However, these changes do not impact everyone in the same way and at the same time. These normal changes in cognition may not have a noticeable effect on one's ability to perform routine financial tasks,

---

1 Recent Canadian census data shows that approximately 5.9 million Canadians are aged 65 or older, representing nearly 17 per cent of Canada's total population. Source: Statistics Canada, "Canada's population estimates: age and sex" (2015).

2 Households led by Canadians aged 65 and older control approximately \$541 billion in non-pension financial assets, representing 39 per cent of total non-pension financial assets held by Canadian households. Source: Statistics Canada, Survey of Financial Security (2016).

3 Innovative Research Group (commissioned by the CSA), *CSA Investor Index* (2017), at p. 52.

4 National Initiative for the Care of the Elderly, *Into the Light: National Survey on the Mistreatment of Older Canadians* (2015), at p. 55.

5 *Ibid.*

such as paying bills, but they can become more obvious when one faces more complex or unfamiliar contexts, such as financial planning or deciding to buy or sell investments.<sup>6</sup> Additionally, the risk of Alzheimer's disease and other forms of dementia increases substantially as individuals get older: while only 7 per cent of Canadians over 65 years of age are affected by dementia, this percentage is 35-40 per cent among Canadians over 85 years of age.<sup>7</sup> The CSA recognizes that older clients are not a homogenous group and that not all older clients are vulnerable or unable to protect their own interests. The CSA also recognizes that not all vulnerable clients are older clients. Vulnerability can affect a client of any age, take many forms, and can be temporary, sporadic or permanent in nature. Vulnerability can be caused by an illness, impairment, disability or aging process limitation. It is important for firms to recognize vulnerabilities in their clients, because vulnerable clients may be more susceptible to financial exploitation.

### *Canadian Policy Landscape*

Over the past several years, Canadian securities regulators have been focusing on addressing issues of financial exploitation and diminished mental capacity affecting older and vulnerable investors. In March 2018, the Ontario Securities Commission (the **OSC**) published OSC Staff Notice 11-779 – *Seniors Strategy*, which included an action plan to respond to the needs and priorities of Ontario seniors.<sup>8</sup> In June 2018, the Financial and Consumer Services Commission (New Brunswick) released a report on financial exploitation and cognitive impairment, outlining its recommendations as well as results from public feedback on an earlier consultation paper.<sup>9</sup> In early 2017, the Québec government adopted *An Act to combat maltreatment of seniors and other persons of full age in vulnerable situations as a means of combating abuse*<sup>10</sup> and the Autorité des marchés financiers published *Protecting vulnerable clients – A practical guide for the financial services industry* in May 2019.<sup>11</sup>

In June 2019, the CSA published CSA Staff Notice 31-354 *Suggested Practices for Engaging with Older and Vulnerable Clients*, which, among other things, encourages registrants to consider asking their clients to provide TCP information.<sup>12</sup>

Similarly, the SROs have taken measures to address these issues. In 2016, IIROC published IIROC Notice 16-0114 - *Guidance on compliance and supervisory issues when dealing with senior clients*.<sup>13</sup> In October 2019, the MFDA published MFDA Bulletin #0797-P - *Seniors and Vulnerable Clients* which sets out its recommendations in respect of the use of TCPs and the placing of temporary holds on transactions.<sup>14</sup>

The CSA acknowledges that in order to protect older and vulnerable clients, it is important to provide registrants with tools and guidance that they can use to take action against financial exploitation and to address issues arising from a client's diminished mental capacity, while being

---

6 FCA, Occasional paper No. 31, *Ageing Population and Financial Services* (2017), at p. 26.

7 Canada, Senate, *Dementia in Canada: A National Strategy for Dementia-friendly Communities* (Standing Senate Committee on Social Affairs, Science and Technology, 2016), at p. 3.

8 *Seniors Strategy*, OSC SN 11-779, (2018) 41 OSCB 2268.

9 Financial and Consumer Services Commission of New Brunswick, *Recommendations and Results of Consultation: Improving Detection, Prevention and Response to Senior Financial Abuse in New Brunswick* (June 2018).

10 *An Act to combat maltreatment of seniors and other persons of full age in vulnerable situations as a means of combating abuse*, L-6.3, Québec, 2017.

11 *Protecting vulnerable clients – A practical guide for the financial services industry*, AMF, (2019).

12 CSA Staff Notice 31-354, *Suggested Practices for Engaging with Older and Vulnerable Clients*(2019) 42 OSCB 5555.

13 IIROC Notice 16-0114, *Guidance on compliance and supervisory issues when dealing with senior clients* (2016).

14 MFDA Bulletin #0797-P, *Seniors and Vulnerable Clients*(2019).

mindful of the client's autonomy. We believe that the Proposed Amendments are a step towards achieving these goals.

### ***U.S. Policy Landscape***

In recent years, the North American Securities Administrators Association<sup>15</sup> and the Financial Industry Regulatory Authority<sup>16</sup> have taken steps to address issues of financial exploitation of older and vulnerable clients. In drafting the Proposed Amendments, CSA staff considered these two regimes and adopted certain elements of these frameworks that were appropriate for the Canadian landscape.

### **Summary of Proposed Amendments**

CSA Staff have organized the Proposed Amendments into two topics: 1) Trusted Contact Person and 2) Temporary Holds. Unless otherwise noted, section references in the summary below are to provisions in NI 31-103.

#### ***Trusted Contact Person***

The CSA proposes to amend section 13.2 [*Know your client*] of NI 31-103 by adding a new paragraph 13.2(2)(e) that would require registrants to take reasonable steps to obtain from the client the name and contact information of a TCP and the written consent of the client to contact the TCP in circumstances set out in the Rule. We also propose to provide guidance in 31-103CP with respect to our expectations for the use of the TCP. This requirement would not apply to a registrant in respect of a client who is not an individual.

In addition, the CSA proposes to amend section 14.2 [*Relationship disclosure information*] of NI 31-103 by adding a new paragraph 14.2(2)(1.1) that would require a registered firm to disclose to a client the circumstances under which the firm might disclose information about the client or the client's account to the TCP.

#### ***Temporary Holds***

The CSA proposes to add a new section 13.19 [*Conditions for temporary hold*] to NI 31-103 that would:

- not prohibit registered firms and registered individuals from placing a temporary hold on the purchase or sale of a security or withdrawal or transfer of cash or securities from a client's account, if the registered firm reasonably believes that either:
  - a vulnerable client is being financially exploited, or
  - with respect to an instruction given by a client, the client does not have the mental capacity to make financial decisions, and

---

<sup>15</sup> NASAA, *NASAA Model Act to Protect Vulnerable Adults from Financial Exploitation*, <https://bit.ly/2E4XYt6>.

<sup>16</sup> FINRA, *Senior Investors*, <https://bit.ly/2Yxn3pS>.

- require registered firms to take certain prescribed steps if they place a temporary hold in the above noted circumstances.

We also propose to provide guidance in 31-103CP with respect to our expectations for the use of temporary holds.

The Proposed Amendments would add definitions of “financial exploitation”, “mental capacity”, “temporary hold” and “vulnerable client” to section 1.1 of NI 31-103. The CSA proposes to add guidance to 31-103CP on the signs registrants may observe if a client is being financially exploited or is suffering from diminished mental capacity.

The CSA proposes to amend section 11.5 [*General requirements for records*] of NI 31-103 by adding a new paragraph 11.5(2)(s) to require firms to maintain records to demonstrate compliance with the proposed section 13.19.

The CSA also proposes to amend section 14.2 [*Relationship disclosure information*] of NI 31-103 by adding a new paragraph 14.2(2)(p) that would require a registered firm to provide clients with a general explanation of the circumstances under which the firm or registered individual may place a temporary hold and a description of the notice that will be given.

### **Questions for Comment**

In addition to comments on any aspect of the Proposed Amendments, we invite views on the questions below. Please provide a specific response.

#### ***Trusted Contact Person***

1. We have proposed that the new paragraph 13.2(2)(e) not apply to a registrant in respect of a client that is not an individual. We acknowledge that some individuals structure their accounts as holding companies, partnerships or trusts for various reasons.

Should registrants be required to take reasonable steps to obtain the name and contact information of a trusted contact person for the individuals 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?
2. For IIROC Dealer Members exclusively offering order execution only services, please comment on any specific considerations or factors that may impact the appropriateness of the proposed framework in the order execution only service context, particularly the requirement to take reasonable steps to obtain TCP information under new paragraph 13.2(2)(e).

### ***Temporary Holds***

3. We have proposed that the new temporary hold requirements apply to holds that are placed if there is a reasonable belief that, with respect to an instruction given by the client, the client does not have the mental capacity to make financial decisions. We have heard from stakeholders that an individual that is suffering from diminished mental capacity is more susceptible to financial exploitation, and, because of their diminished mental capacity, may need to be protected from mishandling or dissipating their own assets. Should the temporary hold requirements apply to holds that are placed where there is a reasonable belief that the client does not have the mental capacity to make financial decisions or should they be limited to cases of financial exploitation of vulnerable clients?
4. We have proposed that the new temporary hold requirements apply to holds that are placed, not only on the withdrawal of cash or securities from an account, but also on the purchase or sale of securities and the transfer of cash or securities to another firm. We have heard from stakeholders that transactions and transfers, in cases of financial exploitation or diminished mental capacity, can be just as harmful to clients as withdrawals. Should the temporary hold requirements apply to holds that are placed on the purchase or sale of securities and the transfer of cash or securities to another firm?
5. We have not proposed a time limit on temporary holds considering the complex nature of issues relating to financial exploitation and diminished mental capacity, and the length of time it takes to engage with third parties such as the police and the relevant public guardian and trustee. Instead of a time limit on the temporary holds, we are proposing to require firms to provide the client with notice of the decision to not terminate the temporary hold, and reasons for that decision, every 30 days. Should we prescribe a time limit on temporary holds? Or is the notice requirement proposed by the CSA sufficient to protect investors?
6. Are the Proposed Amendments regarding temporary holds adequate to address issues of financial exploitation of vulnerable clients or diminished mental capacity, or does more need to be done to ensure these issues are addressed? The CSA will consider next steps based on the input received.

### **Transition**

Subject to the nature of comments we receive, as well as any applicable regulatory requirements, we are proposing that if approved, the Proposed Amendments would come into force at the same time as the Client Focused Reforms relating to know your client.

We invite your comments on this implementation plan.

### **Local Matters**

Annex D includes, where applicable, additional information that is relevant in a local jurisdiction only.

## **Request for Comments**

We welcome your comments on the Proposed Amendments.

Please submit your comments in writing on or before June 3, 2020. If you are not sending your comments by email, please send a CD containing the submissions (in Microsoft Word format).

Address your submission to all of the CSA as follows:

British Columbia Securities Commission  
Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
Financial and Consumer Services Commission (New Brunswick)  
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island  
Nova Scotia Securities Commission  
Securities Commission of Newfoundland and Labrador  
Registrar of Securities, Northwest Territories  
Registrar of Securities, Yukon Territory  
Superintendent of Securities, Nunavut

Deliver your comments only to the addresses below. Your comments will be distributed to the other participating CSA members.

The Secretary  
Ontario Securities Commission  
20 Queen Street West, 22nd Floor  
Toronto, Ontario M5H 3S8  
Fax: 416-593-2318  
[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

Me Philippe Lebel  
Corporate Secretary and Executive Director, Legal Affairs  
Autorité des marchés financiers  
Place de la Cité, tour Cominar  
2640, boulevard Laurier, bureau 400  
Québec (Québec) G1V 5C1  
Fax: 514-864-8381  
[consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

We cannot keep submissions confidential because securities legislation in certain provinces requires publication of the written comments received during the comment period. All comments received will be posted on the websites of each of the Alberta Securities Commission at [www.albertasecurities.com](http://www.albertasecurities.com), the Autorité des marchés financiers at [www.lautorite.qc.ca](http://www.lautorite.qc.ca) and the Ontario Securities Commission at [www.osc.gov.on.ca](http://www.osc.gov.on.ca). Therefore, you should not include personal information directly in comments to be published. It is important that you state on whose behalf you are making the submission.

## Questions

Please refer your questions to any of the following:

Jenna Virk  
Senior Legal Counsel, Legal Services  
Capital Markets Regulation Division  
British Columbia Securities Commission  
604-899-6884  
jvirk@bcsc.bc.ca

Bonnie Kuhn  
Senior Legal Counsel  
Market Regulation  
Alberta Securities Commission  
403-355-3890  
bonnie.kuhn@asc.ca

Curtis Brezinski  
Compliance Auditor, Capital Markets  
Securities Division  
Financial and Consumer Affairs Authority of Saskatchewan  
306-787-5876  
curtis.brezinski@gov.sk.ca

Steve Gingera  
Legal Counsel  
Manitoba Securities Commission  
204-945-5070  
Steven.Gingera@gov.mb.ca

Andrea Maggisano  
Senior Policy Advisor  
Investor Office  
Ontario Securities Commission  
416-204-8988  
amaggisano@osc.gov.on.ca

Namita Balgi  
Policy Advisor  
Investor Office  
Ontario Securities Commission  
416-204-8985  
nbalgi@osc.gov.on.ca

Martin Picard  
Analyste expert à l'encadrement des intermédiaires  
Direction de l'encadrement des intermédiaires  
Autorité des marchés financiers  
514-395-0337 and 1-877-525-0337  
martin.picard@lautorite.qc.ca

Deborah Gillis  
Senior Legal Counsel/Conseillère juridique  
Financial and Consumer Services Commission/Commission des  
services financiers et des services aux consommateurs  
506-643-7112  
Deborah.Gillis@fcnb.ca

Chris Pottie  
Deputy Director, Registration & Compliance  
Nova Scotia Securities Commission  
902-424-5393  
Chris.Pottie@novascotia.ca

Steven Dowling  
Acting Director  
Government of Prince Edward Island, Superintendent of  
Securities  
902-368-4551  
sddowling@gov.pe.ca

Renée Dyer  
Superintendent of Securities  
Office of the Superintendent of Securities, Service NL  
709-729-4909  
ReneeDyer@gov.nl.ca

Jeff Mason  
Superintendent of Securities  
Department of Justice, Government of Nunavut  
867-975-6591  
jmason@gov.nu.ca

Jeremy Walsh  
Policy Officer, Legal Registries  
Office of the Superintendent of Securities,  
Northwest Territories  
867-767-9260 ext. 82205  
Jeremy\_Walsh@gov.nt.ca

Rhonda Horte  
Securities Officer  
Office of the Yukon Superintendent of Securities  
867-667-5466  
[rhonda.horte@gov.yk.ca](mailto:rhonda.horte@gov.yk.ca)

**ANNEX A**  
**PROPOSED AMENDMENTS TO**  
**NATIONAL INSTRUMENT 31-103**  
***REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT***  
***OBLIGATIONS***

**1. *National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations is amended by this Instrument.***

**2. *Section 1.1 is amended by adding the following definitions:***

“financial exploitation” means, in respect of an individual, the use, control or deprivation of the individual’s financial assets through undue influence or wrongful or unlawful conduct;

“mental capacity” means the ability to understand information or appreciate the foreseeable consequences of a decision or lack of decision;

“temporary hold” means a hold that is placed on the purchase or sale of a security or withdrawal or transfer of cash or securities from a client’s account;

“vulnerable client” means a client of a registered firm or a registered individual, who may have an illness, impairment, disability or aging process limitation that places the client at risk of financial exploitation;.

**3. *Subsection 11.5 (2) is amended:***

**(a) *in paragraph (r) by replacing “.” with “;”, and***

**(b) *by adding the following paragraph:***

**(s) demonstrate compliance with section 13.19 [*conditions for temporary hold*]..**

**4. *Subsection 13.2 (2) is amended by deleting “and” at the end of subparagraph (c) (vi), by replacing “.” with “, and” at the end of paragraph (d), and by adding the following paragraph:***

**(e) obtain from the client the name and contact information of a trusted contact person, who is an individual of the age of majority or older in the individual’s jurisdiction of residence, and the written consent of the client for the registrant to contact the trusted contact person to confirm or make inquiries about any of the following:**

**(i) possible financial exploitation of the client;**

**(ii) concerns about the client’s mental capacity as it relates to the client’s financial decision making or lack of decision making;**

- (iii) the name and contact information of any of the following:
  - (A) a legal guardian of the client,
  - (B) an executor of an estate under which the client is a beneficiary,
  - (C) a trustee of a trust under which the client is a beneficiary,
  - (D) any other personal or legal representative of the client;
- (iv) the client's current contact information..

**5. Section 13.2 is amended by adding the following subsection:**

- (8) Paragraph (2)(e) does not apply to a registrant in respect of a client that is not an individual..

**6. The Instrument is amended by adding the following division:**

*Division 8 Temporary holds*

**13.19 Conditions for temporary hold**

- (1) A registered firm, or a registered individual whose registration is sponsored by the registered firm, must not place a temporary hold in relation to the financial exploitation of a vulnerable client unless the firm reasonably believes:
  - (a) the client is a vulnerable client, and
  - (b) financial exploitation of the client has occurred, is occurring, has been attempted or will be attempted.
- (2) A registered firm, or a registered individual whose registration is sponsored by the registered firm, must not place a temporary hold in relation to the lack of mental capacity of a client unless the firm reasonably believes, with respect to an instruction given by the client, the client does not have the mental capacity to make financial decisions.
- (3) If a registered firm, or a registered individual whose registration is sponsored by the registered firm, places a temporary hold in accordance with subsection (1) or (2), the firm must do the following:
  - (a) document the facts that caused the firm or individual to place and continue the temporary hold;
  - (b) as soon as possible following the date the firm or individual initially placed the temporary hold, provide notice of the temporary hold and the reasons for the temporary hold to the client;
  - (c) as soon as possible following the date the firm or individual initially placed the temporary hold and until the hold is terminated, further review the facts that caused the firm or individual to place the temporary hold;

- (d) within 30 days of placing the temporary hold, and unless the hold has been previously terminated, within every subsequent 30-day period, take either of the following actions:
  - (i) terminate the temporary hold;
  - (ii) provide the client with notice of the firm's decision to not terminate the hold and the reasons for that decision;
- (e) ultimately terminate the temporary hold and decide to proceed or not proceed with the purchase or sale of a security or withdrawal or transfer of cash or securities..

**7. Subsection 14.2 (2) is amended:**

**(a) by adding the following paragraph:**

- (l.1) a description of the circumstances under which a registrant might disclose information about the client or the client's account to a trusted contact person in accordance with paragraph 13.2(2)(e);

**(b) in paragraph (o) by replacing “.” with “;”, and**

**(c) by adding the following paragraph:**

- (p) a general explanation of the circumstances under which a registered firm or registered individual may place a temporary hold under section 13.19 [*conditions for temporary hold*] and a description of the notice that will be given to the client, if a temporary hold is placed under that section..

**8. This Instrument comes into force on •.**

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

**Table of Contents**

	<b>Part 1 Interpretation</b>
	1.1 Definitions of terms used throughout this Instrument
	1.2 Interpretation of "securities" in Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan
	1.3 Information may be given to the principal regulator
<b>Individual registration</b>	<b>Part 2 Categories of registration for individuals</b>
	2.1 Individual categories
	2.2 Client mobility exemption – individuals
	2.3 Individuals acting for investment fund managers
	<b>Part 3 Registration requirements – individuals</b>
	<i>Division 1 General proficiency requirements</i>
	3.1 Definitions
	3.2 U.S. equivalency
	3.3 Time limits on examination requirements
	<i>Division 2 Education and experience requirements</i>
	3.4 Proficiency – initial and ongoing
	3.5 Mutual fund dealer – dealing representative
	3.6 Mutual fund dealer – chief compliance officer
	3.7 Scholarship plan dealer – dealing representative
	3.8 Scholarship plan dealer – chief compliance officer
	3.9 Exempt market dealer – dealing representative
	3.10 Exempt market dealer – chief compliance officer
	3.11 Portfolio manager – advising representative
	3.12 Portfolio manager – associate advising representative
	3.13 Portfolio manager – chief compliance officer
	3.14 Investment fund manager – chief compliance officer
	<i>Division 3 Membership in a self-regulatory organization</i>
	3.15 Who must be approved by an SRO before registration
	3.16 Exemptions from certain requirements for SRO-approved persons
	<b>Part 4 Restrictions on registered individuals</b>
	4.1 Restriction on acting for another registered firm
	4.2 Associate advising representatives – pre-approval of advice
	<b>Part 5 Ultimate designated person and chief compliance officer</b>
	5.1 Responsibilities of the ultimate designated person
	5.2 Responsibilities of the chief compliance officer
	<b>Part 6 Suspension and revocation of registration – individuals</b>
	6.1 If individual ceases to have authority to act for firm
	6.2 If IIROC approval is revoked or suspended
	6.3 If MFDA approval is revoked or suspended
	6.4 If sponsoring firm is suspended
	6.5 Dealing and advising activities suspended
	6.6 Revocation of a suspended registration – individual
	6.7 Exception for individuals involved in a hearing or proceeding
	6.8 Application of Part 6 in Ontario
<b>Firm registration</b>	<b>Part 7 Categories of registration for firms</b>

- 7.1 Dealer categories
- 7.2 Adviser categories
- 7.3 Investment fund manager category

## **Part 8 Exemptions from the requirement to register**

### *Division 1 Exemptions from dealer and underwriter registration*

- 8.0.1 General condition to dealer registration requirement exemptions
- 8.1 Interpretation of "trade" in Québec
- 8.2 Definition of "securities" in Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan
- 8.3 Interpretation – exemption from underwriter registration requirement
- 8.4 Person or company not in the business of trading in British Columbia, Manitoba and New Brunswick
- 8.5 Trades through or to a registered dealer
- 8.5.1 Trades through a registered dealer by registered adviser
- 8.6 Investment fund trades by adviser to managed account
- 8.7 Investment fund reinvestment
- 8.8 Additional investment in investment funds
- 8.9 Additional investment in investment funds if initial purchase before September 14, 2005
- 8.10 Private investment club
- 8.11 Private investment fund – loan and trust pools
- 8.12 Mortgages
- 8.13 Personal property security legislation
- 8.14 Variable insurance contract
- 8.15 Schedule III banks and cooperative associations – evidence of deposit
- 8.16 Plan administrator
- 8.17 Reinvestment plan
- 8.18 International dealer
- 8.19 Self-directed registered education savings plan
- 8.20 Exchange contract – Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan
- 8.20.1 Exchange contract trades through or to a registered dealer - Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan
- 8.21 Specified debt
- 8.22 Small security holder selling and purchase arrangements
- 8.22.1 Short-term debt

### *Division 2 Exemptions from adviser registration*

- 8.22.2 General condition to adviser registration requirement exemptions
- 8.23 Dealer without discretionary authority
- 8.24 IIROC members with discretionary authority
- 8.25 Advising generally
- 8.26 International adviser
- 8.26.1 International sub-adviser

### *Division 3 Exemptions from investment fund manager registration*

- 8.26.2 General condition to investment fund manager registration requirement exemptions
- 8.27 Private investment club
- 8.28 Capital accumulation plan
- 8.29 Private investment fund – loan and trust pools

### *Division 4 Mobility exemption – firms*

- 8.30 Client mobility exemption – firms

## **Part 9 Membership in a self-regulatory organization**

- 9.1 IIROC membership for investment dealers
- 9.2 MFDA membership for mutual fund dealers
- 9.3 Exemptions from certain requirements for IIROC members
- 9.4 Exemptions from certain requirements for MFDA members

## **Part 10 Suspension and revocation of registration – firms**

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

- 10.1 Failure to pay fees
- 10.2 If IIROC membership is revoked or suspended
- 10.3 If MFDA membership is revoked or suspended

- 10.4 Activities not permitted while a firm's registration is suspended
- Division 2 Revoking a firm's registration*
- 10.5 Revocation of a suspended registration – firm
- 10.6 Exception for firms involved in a hearing or proceeding
- 10.7 Application of Part 10 in Ontario

**Business  
operations**

**Part 11 Internal controls and systems**

- Division 1 Compliance*
- 11.1 Compliance system and training
- 11.2 Designating an ultimate designated person
- 11.3 Designating a chief compliance officer
- 11.4 Providing access to the board of directors
- Division 2 Books and records*
- 11.5 General requirements for records
- 11.6 Form, accessibility and retention of records
- Division 3 Certain business transactions*
- 11.7 Tied settling of securities transactions
- 11.8 Tied selling
- 11.9 Registrant acquiring a registered firm's securities or assets
- 11.10 Registered firm whose securities are acquired

**Part 12 Financial condition**

- Division 1 Working capital*
- 12.1 Capital requirements
- 12.2 Subordination agreement
- Division 2 Insurance*
- 12.3 Insurance – dealer
- 12.4 Insurance – adviser
- 12.5 Insurance – investment fund manager
- 12.6 Global bonding or insurance
- 12.7 Notifying the regulator or the securities regulatory authority of a change, claim or cancellation
- Division 3 Audits*
- 12.8 Direction by the regulator or the securities regulatory authority to conduct an audit or review
- 12.9 Co-operating with the auditor
- Division 4 Financial reporting*
- 12.10 Annual financial statements
- 12.11 Interim financial information
- 12.12 Delivering financial information – dealer
- 12.13 Delivering financial information – adviser
- 12.14 Delivering financial information – investment fund manager
- 12.15 [lapsed]

**Client  
relationships**

**Part 13 Dealing with clients – individuals and firms**

- Division 1 Know your client, know your product and suitability determination*
- 13.1 Investment fund managers exempt from this Division
- 13.2 Know your client
- 13.2.1 Know your product
- 13.3 Suitability determination
- 13.3.1 Waivers
- Division 2 Conflicts of interest*
- 13.4 Identifying, addressing and disclosing material conflicts of interest – registered firm
- 13.4.1 Identifying, reporting and addressing material conflicts of interest – registered individual
- 13.4.2 Investment fund managers
- 13.5 Restrictions on certain managed account transactions
- 13.6 Disclosure when recommending related or connected securities
- Division 3 Referral arrangements*
- 13.7 Definitions – referral arrangements
- 13.8 Permitted referral arrangements
- 13.9 Verifying the qualifications of the person or company receiving the referral
- 13.10 Disclosing referral arrangements to clients
- 13.11 [lapsed]
- Division 4 Borrowing and lending*

- 13.12 Restriction on borrowing from, or lending to, clients
- 13.13 Disclosure when recommending the use of borrowed money
- Division 5 Complaints*
- 13.14 Application of this Division
- 13.15 Handling complaints
- 13.16 Dispute resolution service
- Division 6 Registered sub-advisers*
- 13.17 Exemption from certain requirements for registered sub-advisers
- Division 7 Misleading communications*
- 13.18 Misleading communications
- Division 8 Temporary Holds**
- 13.19 Conditions for temporary hold**

## **Part 14 Handling client accounts – firms**

- Division 1 Investment fund managers*
- 14.1 Application of this Part to investment fund managers
- 14.1.1 Duty to provide information – investment fund managers
- Division 2 Disclosure to clients*
- 14.2 Relationship disclosure information
- 14.2.1 Pre-trade disclosure of charges
- 14.3 Disclosure to clients about the fair allocation of investment opportunities
- 14.4 When the firm has a relationship with a financial institution
- 14.5 Notice to clients by non-resident registrants
- Division 3 Client assets and investment fund assets*
- 14.5.1 Definition of “securities” in Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan
- 14.5.2 Restriction on self-custody and qualified custodian requirement
- 14.5.3 Cash and securities held by a qualified custodian
- 14.6 Client and investment fund assets held by a registered firm in trust
- 14.6.1 Custodial provisions relating to certain margin or security interests
- 14.6.2 Custodial provisions relating to short sales
- 14.7 *[repealed]*
- 14.8 *[repealed]*
- 14.9 *[repealed]*
- Division 4 Client accounts*
- 14.10 Allocating investment opportunities fairly
- 14.11 Selling or assigning client accounts
- Division 5 Reporting to clients*
- 14.11.1 Determining market value
- 14.12 Content and delivery of trade confirmation
- 14.13 Confirmations for certain automatic plans
- 14.14 Account statements
- 14.14.1 Additional statements
- 14.14.2 Security position cost information
- 14.15 Security holder statements
- 14.16 Scholarship plan dealer statements
- 14.17 Report on charges and other compensation
- 14.18 Investment performance report
- 14.19 Content of investment performance report
- 14.20 Delivery of report on charges and other compensation and investment performance report

**Exemption  
from this  
Instrument**

## **Part 15 Granting an exemption**

- 15.1 Who can grant an exemption

**Transition and  
timing**

## **Part 16 Transition**

- 16.1 *[lapsed]*
- 16.2 *[lapsed]*
- 16.3 *[lapsed]*
- 16.4 *[lapsed]*
- 16.5 *[lapsed]*
- 16.6 *[lapsed]*
- 16.7 *[lapsed]*

- 16.8 [lapsed]
- 16.9 Registration of chief compliance officers
- 16.10 Proficiency for dealing and advising representatives
- 16.11 [lapsed]
- 16.12 Continuation of existing discretionary relief
- 16.13 [lapsed]
- 16.14 [lapsed]
- 16.15 [lapsed]
- 16.16 [lapsed]
- 16.17 [lapsed]
- 16.18 [lapsed]
- 16.19 [lapsed]
- 16.20 [lapsed]

#### **Part 17 When this Instrument comes into force**

- 17.1 Effective date

#### **Forms**

FORM 31-103F1 CALCULATION OF EXCESS WORKING CAPITAL  
FORM 31-103F2 SUBMISSION TO JURISDICTION AND APPOINTMENT OF AGENT FOR SERVICE  
FORM 31-103F3 USE OF MOBILITY EXEMPTION  
FORM 31-103F4 NET ASSET VALUE ADJUSTMENTS

#### **Appendices**

APPENDIX A – BONDING AND INSURANCE CLAUSES  
APPENDIX B – SUBORDINATION AGREEMENT  
APPENDIX C – [lapsed]  
APPENDIX D – [lapsed]  
APPENDIX E – [lapsed]  
APPENDIX F – [lapsed]  
APPENDIX G – EXEMPTIONS FROM CERTAIN REQUIREMENTS FOR IIROC MEMBERS  
APPENDIX H – EXEMPTIONS FROM CERTAIN REQUIREMENTS FOR MFDA MEMBERS

**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 custodian” means any of the following:

- (a) a bank listed in Schedule I, II or III of the *Bank Act* (Canada);
- (b) a trust company that is incorporated under the laws of Canada or a jurisdiction of Canada and licensed or registered under the laws of Canada or a jurisdiction of Canada, and that has equity, as reported in its most recent audited financial statements, of not less than \$10,000,000;
- (c) a company that is incorporated under the laws of Canada or a jurisdiction of Canada, and that is an affiliate of a bank or trust company referred to in paragraph (a) or (b), if either of the following applies:
  - (i) the company has equity, as reported in its most recent audited financial statements, of not less than \$10,000,000;
  - (ii) the bank or trust company has assumed responsibility for all of the custodial obligations of the company for the cash and securities the company holds for a client or investment fund;
- (d) an investment dealer that is a member of IIROC and that is permitted under the rules of IIROC, as amended from time to time, to hold the cash and securities of a client or investment fund;

“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 paragraph (b) of the definition of “designated rating” in National Instrument 81-102 *Investment Funds*;

“designated rating organization” has the same meaning as in National Instrument 44-101 *Short Form Prospectus Distributions*;

“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;

“financial exploitation” means, in respect of an individual, the use, control or deprivation of the individual’s financial assets through undue influence or wrongful or unlawful conduct;

“foreign custodian” means any of the following:

- (a) an entity that
  - (i) is incorporated or organized under the laws of a country, or a political subdivision of a country, other than Canada,
  - (ii) is regulated as a banking institution or trust company by the government, or an agency of the government, of the country under the laws of which it is incorporated or organized, or a political subdivision of that country, and
  - (iii) has equity, as reported in its most recent audited financial statements, of not less than the equivalent of \$100,000,000;
- (b) an affiliate of an entity referred to in paragraph (a), (b) or (c) of the definition of “Canadian custodian”, or paragraph (a) of this definition, if either of the following applies:
  - (i) the affiliate has equity, as reported in its most recent audited financial statements, of not less than the equivalent of \$100,000,000;
  - (ii) the entity referred to in paragraph (a), (b) or (c) of the definition of “Canadian custodian”, or paragraph (a) of this definition, has assumed responsibility for all of the custodial obligations of the affiliate for the cash and securities the affiliate holds for a client or investment fund;

“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;

“mental capacity” means the ability to understand information or appreciate the foreseeable consequences of a decision or lack of decision;

“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 a client’s account 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*;

“qualified custodian” means a Canadian custodian or a foreign custodian;

“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*;

“successor credit rating organization” has the same meaning as in National Instrument 44-101 *Short Form Prospectus Distributions*;

“temporary hold” means a hold that is placed on the purchase or sale of a security or withdrawal or transfer of cash or securities from a client’s account;

“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;

“vulnerable client” means a client of a registered firm or a registered individual, who may have an illness, impairment, disability or aging process limitation that places the client at risk of financial exploitation;

“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) Subject to sections 8.2, 8.26 and 14.5.1, in British Columbia, a reference to “securities” in this Instrument includes “exchange contracts”, unless the context otherwise requires.
- (2) Subject to sections 8.2, 8.26 and 14.5.1, 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 *Securities Act* (Ontario).

## 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.
- (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 an investment dealer that is a member of IIROC:
  - (a) subsection 13.2(3) [*know your client*];
  - (b) section 13.3 [*suitability determination*];

- (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 an investment dealer that is 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 mutual fund dealer that is a member of the MFDA:
  - (a) section 13.3 [*suitability determination*];
  - (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 mutual fund dealer that is 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,
    - (ii) act as a dealer by trading a security if all of the following apply:
      - (A) the trade is not a distribution;
      - (B) an exemption from the prospectus requirement would be available to the seller if the trade were a distribution;
      - (C) the class of security is not listed, quoted or traded on a marketplace, 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) **[repealed]**

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*

#### **8.0.1 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**

Despite section 1.2, in Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan, a reference to "securities" in this Division excludes "exchange contracts".

### **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 all of the following apply:
  - (a) the adviser or an affiliate of the adviser acts as the fund's adviser;
    - (a.1) the adviser or an affiliate of the adviser acts as the fund's 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 *Securities Act* (Ontario).

#### **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 *Securities Act* (Ontario).

#### **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 *Securities Act* (Ontario).

In Alberta, subsection 8.15(1) is not required because the exemption is provided under subsection 1(ggg)(v)(B) of the *Securities Act* (Alberta).

#### 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 of one of the following exemptions are satisfied:
  - (i) except in Alberta and Ontario, section 2.14 or 2.15 of National Instrument 45-102 *Resale of Securities*,
  - (ii) in Ontario, section 2.7 or 2.8 of Ontario Securities Commission Rule 72-503 *Distributions Outside Canada*,
  - (iii) in Alberta, section 10 or 11 of Alberta Securities Commission Rule 72-501 *Distributions to Purchasers Outside Alberta*.

#### **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 if the debt security
    - (i) is denominated in a currency other than the Canadian dollar, or
    - (ii) is or was originally 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.

(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**

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.

#### **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.

Note: In Ontario, an exemption from the dealer registration requirement similar to that in section 8.22.1 is provided under section 35.1 of the *Securities Act* (Ontario).

*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 an investment dealer that 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).
---

## 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”.
- (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 if either of the following applies:
- (a) the person or company provides advice on a foreign security to a permitted client that is not registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer;
  - (b) the person or company provides advice on a security that is not a foreign security and the advice is incidental to the advice referred to in paragraph (a).
- (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, section 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, an investment dealer 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 determination*];
- (j.1) section 13.3.1 [*waivers*];
- (k) section 13.12 [*restriction on borrowing from, or lending to, clients*];
- (l) section 13.13 [*disclosure when recommending the use of borrowed money*];
- (l.1) section 13.15 [*handling complaints*];
- (m) subsections 14.2(2) to (6) [*relationship disclosure information*];
- (m.1) section 14.2.1 [*pre-trade disclosure of charges*];
- (m.2) section 14.5.2 [*restriction on self-custody and qualified custodian requirement*];
- (m.3) section 14.5.3 [*cash and securities held by a qualified custodian*];
- (n) section 14.6 [*client and investment fund assets held by a registered firm in trust*];
- (n.1) section 14.6.1 [*custodial provisions relating to certain margin or security interests*];
- (n.2) section 14.6.2 [*custodial provisions relating to short sales*];
- (o) [*repealed*];
- (p) [*repealed*];
- (p.1) section 14.11.1 [*determining market value*];
- (q) section 14.12 [*content and delivery of trade confirmation*];

- (r) section 14.14 [*account statements*];
  - (s) section 14.14.1 [*additional statements*];
  - (t) section 14.14.2 [*security position cost information*];
  - (u) section 14.17 [*report on charges and other compensation*];
  - (v) section 14.18 [*investment performance report*];
  - (w) section 14.19 [*content of investment performance report*];
  - (x) section 14.20 [*delivery of report on charges and other compensation and investment performance report*].
- (1.1) Subsection (1) only applies to a registered firm in respect of a requirement specified in any of paragraphs (1)(a) to (x) if the registered firm complies with the corresponding IIROC provisions that are in effect.
- (2) If an investment dealer 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 determination*];
  - (e.1) section 13.3.1 [*waivers*];
  - (f) section 13.12 [*restriction on borrowing from, or lending to, clients*];
  - (g) section 13.13 [*disclosure when recommending the use of borrowed money*];
  - (h) section 13.15 [*handling complaints*];
  - (i) subsections 14.2(2) to (6) [*relationship disclosure information*];
  - (i.1) section 14.2.1 [*pre-trade disclosure of charges*];
  - (i.2) section 14.5.2 [*restriction on self-custody and qualified custodian requirement*];
  - (i.3) section 14.5.3 [*cash and securities held by a qualified custodian*];
  - (j) section 14.6 [*client and investment fund assets held by a registered firm in trust*];
  - (j.1) section 14.6.1 [*custodial provisions relating to certain margin or security interests*];
  - (j.2) section 14.6.2 [*custodial provisions relating to short sales*];
  - (k) [*repealed*];
  - (l) [*repealed*];
  - (l.1) section 14.11.1 [*determining market value*];
  - (m) section 14.12 [*content and delivery of trade confirmation*];
  - (n) section 14.17 [*report on charges and other compensation*];

- (o) section 14.18 [*investment performance report*];
  - (p) section 14.19 [*content of investment performance report*];
  - (q) section 14.20 [*delivery of report on charges and other compensation and investment performance report*].
- (2.1) Subsection (2) only applies to a registered firm in respect of a requirement specified in any of paragraphs (2)(a) to (q) if the registered firm complies with the corresponding IIROC 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 mutual fund dealer 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 determination*];
  - (i.1) section 13.3.1 [*waivers*];
  - (j) section 13.12 [*restriction on borrowing from, or lending to, clients*];
  - (k) section 13.13 [*disclosure when recommending the use of borrowed money*];
  - (l) section 13.15 [*handling complaints*];
  - (m) subsections 14.2(2), (3) and (5.1) [*relationship disclosure information*];
  - (m.1) section 14.2.1 [*pre-trade disclosure of charges*];
  - (m.2) section 14.5.2 [*restriction on self-custody and qualified custodian requirement*];
  - (m.3) section 14.5.3 [*cash and securities held by a qualified custodian*];
  - (n) section 14.6 [*client and investment fund assets held by a registered firm in trust*];
  - (n.1) section 14.6.1 [*custodial provisions relating to certain margin or security interests*];
  - (n.2) section 14.6.2 [*custodial provisions relating to short sales*];
  - (o) [*repealed*];

- (p) [repealed];
  - (p.1) section 14.11.1 [determining market value];
  - (q) section 14.12 [content and delivery of trade confirmation];
  - (r) section 14.14 [account statements];
  - (s) section 14.14.1 [additional statements];
  - (t) section 14.14.2 [security position cost information];
  - (u) section 14.17 [report on charges and other compensation];
  - (v) section 14.18 [investment performance report];
  - (w) section 14.19 [content of investment performance report];
  - (x) section 14.20 [delivery of report on charges and other compensation and investment performance report].
- (1.1)** Subsection (1) only applies to a registered firm in respect of a requirement specified in any of paragraphs (1)(a) to (x) if the registered firm complies with the corresponding MFDA provisions that are in effect.
- (1.2)** Paragraphs (a) to (g), paragraphs (i) to (m) and paragraphs (p.1) to (x) of subsection (1) do not apply in Québec, to the extent equivalent requirements to those listed in these subparagraphs are applicable to the mutual fund dealer under the regulations in Québec.
- (1.3)** In Québec, paragraphs (g.2), (g.3), (h), (h.1) and (h.2) of subsection (2) only applies to a registered firm in respect of a requirement specified in any of these paragraphs if the registered firm complies with the corresponding MFDA provisions that are in effect.
- (2)** If a registered firm is a mutual fund dealer that 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 determination];
  - (c.1) section 13.3.1 [waivers];
  - (d) section 13.12 [restriction on borrowing from, or lending to, clients];
  - (e) section 13.13 [disclosure when recommending the use of borrowed money];
  - (f) section 13.15 [handling complaints];
  - (g) subsections 14.2(2), (3) and (5.1) [relationship disclosure information];
  - (g.1) section 14.2.1 [pre-trade disclosure of charges];
  - (g.2) section 14.5.2 [restriction on self-custody and qualified custodian requirement];
  - (g.3) section 14.5.3 [cash and securities held by a qualified custodian];
  - (h) section 14.6 [client and investment fund assets held by a registered firm in trust];
  - (h.1) section 14.6.1 [custodial provisions relating to certain margin or security interests];
  - (h.2) section 14.6.2 [custodial provisions relating to short sales];
  - (i) [repealed];

- (j) [repealed];
- (j.1) section 14.11.1 [determining market value];
- (k) section 14.12 [content and delivery of trade confirmation];
- (l) section 14.17 [report on charges and other compensation];
- (m) section 14.18 [investment performance report];
- (n) section 14.19 [content of investment performance report];
- (o) section 14.20 [delivery of report on charges and other compensation and investment performance report].

**(2.1)** Subsection (2) only applies to a registered firm in respect of a requirement specified in any of paragraphs (2)(a) to (o) if the registered firm complies with the corresponding MFDA provisions that are in effect.

## **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 and training

- (1) 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.
- (2) A registered firm must provide training to its registered individuals on compliance with securities legislation including, without limitation, the obligations under sections 13.2, 13.2.1, 13.3, 13.4 and 13.4.1.

### 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*], 13.2.1 [*know your product*] and 13.3 [*suitability determination*];
- (m) demonstrate compliance with complaint-handling requirements;
- (n) document correspondence with clients;
- (o) document compliance, training and supervision actions taken by the firm;
- (p) demonstrate compliance with Part 13, Division 2 [*conflicts of interest*];
- (q) document
  - (i) the firm's sales practices, compensation arrangements and incentive practices, and
  - (ii) other compensation arrangements and incentive practices from which the firm or its registered individuals, or any affiliate or associate of that firm, benefit;
- (r) demonstrate compliance with section 13.18 [*misleading communications*];
- (s) demonstrate compliance with section 13.19 [*conditions for temporary hold*].

#### 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).
--

#### 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) a 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 an investment dealer 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
  - (b) 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.

#### **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 mutual fund dealer that 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 90th 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 30th 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.
- (4) Despite paragraph (1)(b), in Québec, a firm registered only in that jurisdiction and only in the category of mutual fund dealer may deliver to the securities regulatory authority, no later than the 90th day after the end of its financial year, the *Monthly Report on Net Free Capital* provided in Appendix I of the *Regulation respecting the trust accounts and financial resources of securities firms*, as that Appendix read on September 27, 2009, that shows the calculation of the firm's net free capital as at the end of its financial year and as at the end of the immediately preceding financial year, if any.
- (5) Despite paragraph (2)(b), in Québec, a firm registered only in that jurisdiction and only in the category of mutual fund dealer may deliver to 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, the *Monthly Report on Net Free Capital* provided in Appendix I of the *Regulation respecting the trust accounts and financial resources of securities firms*, as that Appendix read on September 27, 2009, that shows the calculation of the firm's net free capital as at the end of the interim period and as at the end of the immediately preceding interim period, if any.

#### **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 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 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 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 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 an investment dealer that 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 mutual fund dealer that 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.

## Part 13 Dealing with clients – individuals and firms

Division 1 *Know your client, know your product and suitability determination*

### 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 determination*] or, if applicable, the suitability requirement imposed by an SRO:
    - (i) the client's personal circumstances;
    - (ii) the client's financial circumstances;
    - (iii) the client's investment needs and objectives;
    - (iv) the client's investment knowledge;
    - (v) the client's risk profile;
    - (vi) the client's investment time horizon, ~~and~~
  - (d) establish the creditworthiness of the client if the registered firm is financing the client's acquisition of a security, ~~and~~
  - ~~(e) obtain from the client the name and contact information of a trusted contact person, who is an individual of the age of majority or older in the individual's jurisdiction of residence, and the written consent of the client for the registrant to contact the trusted contact person to confirm or make inquiries about any of the following:~~
    - ~~(i) possible financial exploitation of the client;~~
    - ~~(ii) concerns about the client's mental capacity as it relates to the client's financial decision making or lack of decision making;~~
    - ~~(iii) the name and contact information of any of the following:~~
      - ~~(A) a legal guardian of the client,~~
      - ~~(B) an executor of an estate under which the client is a beneficiary,~~
      - ~~(C) a trustee of a trust under which the client is a beneficiary,~~
      - ~~(D) any other personal or legal representative of the client;~~
    - ~~(iv) the client's current contact information.~~

- (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.
- (3.1) Within a reasonable time after receiving the information, a registrant must take reasonable steps to have a client confirm the accuracy of the information collected under subsection (2).
- (4) A registrant must take reasonable steps to keep current the information required under this section, including updating the information within a reasonable time after the registrant becomes aware of a significant change in the client's information required under this section.
- (4.1) A registrant must review the information collected under paragraph (2)(c)
- (a) for managed accounts, no less frequently than once every 12 months,
  - (b) if the registrant is an exempt market dealer, within 12 months before making a trade for, or recommending a trade to, the client, and
  - (c) in any other case, no less frequently than once every 36 months.
- (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)(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).
- (7) Paragraph (2)(c) and subsection (4.1) do not apply to a registered dealer in respect of a client if the registered dealer purchases or sells securities for the client only as directed by a registered adviser acting for the client.
- (8) Paragraph (2)(e) does not apply to a registrant in respect of a client that is not an individual.

#### 13.2.1 Know your product

- (1) A registered firm must not make securities available to clients unless the firm has taken reasonable steps to:
- (a) assess the relevant aspects of the securities, including the securities' structure, features, risks, initial and ongoing costs and the impact of those costs,
  - (b) approve the securities to be made available to clients, and
  - (c) monitor the securities for significant changes.
- (2) A registered individual must not purchase or sell securities for, or recommend securities to, a client unless the registered individual takes steps to understand the securities, including the securities' structure, features, risks, initial and ongoing costs and the impact of those costs.
- (2.1) For purposes of subsection (2), the steps required to understand the security are those that are reasonable to enable the registered individual to meet their obligations under section 13.3 [*suitability determination*].
- (3) A registered individual must not purchase securities for, or recommend securities to, a client unless the securities have been approved by the firm to be made available to clients.
- (4) This section does not apply to a registered dealer in respect of a security if it purchases or sells the security for a client only as directed by a registered adviser acting for the client.

### 13.3 Suitability determination

- (1) Before a registrant opens an account for a client, purchases, sells, deposits, exchanges or transfers securities for a client's account, takes any other investment action for a client, makes a recommendation or exercises discretion to take any such action, the registrant must determine, on a reasonable basis, that the action satisfies the following criteria:
  - (a) the action is suitable for the client, based on the following factors:
    - (i) the client's information collected in accordance with section 13.2 [*know your client*];
    - (ii) the registrant's assessment or understanding of the security consistent with section 13.2.1 [*know your product*];
    - (iii) the impact of the action on the client's account, including the concentration of securities within the account and the liquidity of those securities;
    - (iv) the potential and actual impact of costs on the client's return on investment;
    - (v) a reasonable range of alternative actions available to the registrant through the registered firm, at the time the determination is made;
  - (b) the action puts the client's interest first.
- (2) A registrant must review a client's account and the securities in the client's account to determine whether the criteria in subsection (1) are met, and take reasonable steps, within a reasonable time, after any of the following events:
  - (a) a registered individual is designated as responsible for the client's account;
  - (b) the registrant becomes aware of a change in a security in the client's account that could result in the security or account not satisfying subsection (1);
  - (c) the registrant becomes aware of a change in the client's information collected in accordance with subsection 13.2(2) that could result in a security or the client's account not satisfying subsection (1);
  - (d) the registrant reviews the client's information in accordance with subsection 13.2(4.1).
- (2.1) Despite subsection (1), if a registrant receives an instruction from a client to take an action that, if taken, does not satisfy subsection (1), the registrant may carry out the client's instruction if the registrant has
  - (a) informed the client of the basis for the determination that the action will not satisfy subsection (1),
  - (b) recommended to the client an alternative action that satisfies subsection (1), and
  - (c) received recorded confirmation of the client's instruction to proceed with the action despite the determination referred to in paragraph (a).
- (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 registered dealer in respect of a client if it purchases or sells securities for the client only as directed by a registered adviser acting for the client.

#### 13.3.1 Waivers

- (1) Paragraph 13.2(2)(c), subsection 13.2(4.1), and section 13.3 do not apply to a registrant in respect of a permitted client if
  - (a) the client is not an individual, and

- (b) the client has requested, in writing, that the registrant not make suitability determinations for the client's account.
- (2) Paragraph 13.2(2)(c), subsection 13.2(4.1), and section 13.3 do not apply to a registrant in respect of a permitted client if
  - (a) the client is an individual,
  - (b) the client has requested, in writing, that the registrant not make suitability determinations for the client's account, and
  - (c) the client's account is not a managed account.

*Division 2 Conflicts of interest*

**13.4 Identifying, addressing and disclosing material conflicts of interest – registered firm**

- (1) A registered firm must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable,
  - (a) between the firm and the client, and
  - (b) between each individual acting on the firm's behalf and the client.
- (2) A registered firm must address all material conflicts of interest between a client and itself, including each individual acting on its behalf, in the best interest of the client.
- (3) A registered firm must avoid any material conflict of interest between a client and the firm, including each individual acting on its behalf, if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.
- (4) A registered firm must disclose in writing all material conflicts of interest identified under subsection (1) to a client whose interests are affected by the conflicts of interest if a reasonable client would expect to be informed of those conflicts of interest.
- (5) Without limiting subsection (4), the information required to be delivered to a client under that subsection must include a description of each of the following:
  - (a) the nature and extent of the conflict of interest;
  - (b) the potential impact on and risk that the conflict of interest could pose to the client;
  - (c) how the conflict of interest has been, or will be, addressed.
- (6) The disclosure required under subsection (4) must be presented in a manner that, to a reasonable person, is prominent, specific and written in plain language.
- (7) A registered firm must disclose a conflict of interest to a client under subsection (4)
  - (a) before opening an account for the client if the conflict has been identified at that time, or
  - (b) in a timely manner, upon identification of a conflict that must be disclosed under subsection (4) that has not previously been disclosed to the client.
- (8) For greater certainty, a registrant does not satisfy subsection (2) or subsection 13.4.1(3) solely by providing disclosure to the client.

**13.4.1 Identifying, reporting and addressing material conflicts of interest – registered individual**

- (1) A registered individual must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable, between the registered individual and the client.

- (2) If a registered individual identifies a material conflict of interest under subsection (1), the registered individual must promptly report that conflict of interest to the registered individual's sponsoring firm.
- (3) A registered individual must address all material conflicts of interest between the client and the individual in the best interest of the client.
- (4) A registered individual must avoid any material conflict of interest between a client and the registered individual if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.
- (5) A registered individual must not engage in any trading or advising activity in connection with a material conflict of interest identified by the registered individual under subsection (1) unless
  - (a) the conflict has been addressed in the best interest of the client, and
  - (b) the registered individual's sponsoring firm has given the registered individual its consent to proceed with the activity.

#### **13.4.2 Investment fund managers**

Sections 13.4 and 13.4.1 do 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) 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 provide or receive a referral fee to or from another person or company;

“referral fee” means any benefit provided 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 registered firm 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 [lapsed]**

*Division 4      Borrowing and lending*

**13.12 Restriction on borrowing from, or lending to, clients**

- (1) A registrant must not lend money, extend credit or provide margin to a client unless any of the following apply:
  - (a) in the case of a loan, the registrant is an investment fund manager, and the money is loaned on a short-term basis to an investment fund it manages, if the loan is for the purpose of funding redemptions of the investment fund's securities or paying expenses incurred by the investment fund in the normal course of its business;
  - (b) in the case of a registrant that is a registered firm, the client is
    - (i) a registered individual sponsored by the firm,
    - (ii) a permitted individual, as defined in National Instrument 33-109 *Registration Information*, of the firm, or
    - (iii) a director, officer, or employee of the firm;
  - (c) in the case of a registrant that is a registered individual, both of the following apply:
    - (i) the client and the registered individual are related to each other for the purposes of the *Income Tax Act* (Canada);
    - (ii) the registered individual has obtained the written approval of the registered individual's sponsoring firm to lend the money, extend the credit or provide the margin.
- (2) A registered individual must not borrow money, securities or other assets or accept a guarantee in relation to borrowed money, securities or any other assets, from a client, unless either or both of the following apply:
  - (a) the client is a financial institution whose business includes lending money to the public, and the loan to the registered individual is in the normal course of the financial institution's business;
  - (b) both of the following apply:
    - (i) the client and the registered individual are related to each other for the purposes of the *Income Tax Act* (Canada);
    - (ii) the registered individual has obtained the written approval of the individual's sponsoring firm to borrow the money, securities or other assets or accept the guarantee.

**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.

*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 in respect of its activities as a sub-adviser:
  - (a) division 2 [*conflicts of interest*] of Part 13, except section 13.5 [*restrictions on certain managed account transactions*] and section 13.6 [*disclosure when recommending related or connected securities*];
  - (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*];
  - (g) section 14.14.1 [*additional statements*];
  - (h) section 14.14.2 [*security position cost information*];
  - (i) section 14.17 [*report on charges and other compensation*];
  - (j) section 14.18 [*investment performance report*].
- (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.

*Division 7 Misleading communications*

**13.18 Misleading communications**

- (1) Registered individuals must not hold themselves out, and a registered firm must not hold itself or its registered individuals out, in a manner that could reasonably be expected to deceive or mislead any person or company as to any of the following matters:
  - (a) the proficiency, experience, qualifications or category of registration of the registrant;

- (b) the nature of the person's relationship, or potential relationship, with the registrant;
  - (c) the products or services provided, or to be provided, by the registrant.
- (2) For greater certainty, and without limiting subsection (1), a registered individual who interacts with clients must not use any of the following:
- (a) if based partly or entirely on that registered individual's sales activity or revenue generation, a title, designation, award, or recognition;
  - (b) a corporate officer title, unless their sponsoring firm has appointed that registered individual to that corporate office pursuant to applicable corporate law;
  - (c) if the individual's sponsoring firm has not approved the use by that registered individual of a title or designation, that title or designation.

*Division 8 Temporary holds*

**13.19 Conditions for temporary hold**

- (1) A registered firm, or a registered individual whose registration is sponsored by the registered firm, must not place a temporary hold in relation to the financial exploitation of a vulnerable client unless the firm reasonably believes:
  - (a) the client is a vulnerable client, and
  - (b) financial exploitation of the client has occurred, is occurring, has been attempted or will be attempted.
- (2) A registered firm, or a registered individual whose registration is sponsored by the registered firm, must not place a temporary hold in relation to the lack of mental capacity of a client unless the firm reasonably believes, with respect to an instruction given by the client, the client does not have the mental capacity to make financial decisions.
- (3) If a registered firm, or a registered individual whose registration is sponsored by the registered firm, places a temporary hold in accordance with subsection (1) or (2), the firm must do the following:
  - (a) document the facts that caused the firm or individual to place and continue the temporary hold;
  - (b) as soon as possible following the date the firm or individual initially placed the temporary hold, provide notice of the temporary hold and the reasons for the temporary hold to the client;
  - (c) as soon as possible following the date the firm or individual initially placed the temporary hold and until the hold is terminated, further review the facts that caused the firm or individual to place the temporary hold;
  - (d) within 30 days of placing the temporary hold, and unless the hold has been previously terminated, within every subsequent 30-day period, take either of the following actions:
    - (i) terminate the temporary hold;
    - (ii) provide the client with notice of the firm's decision to not terminate the hold and the reasons for that decision;
  - (e) ultimately terminate the temporary hold and decide to proceed or not proceed with the purchase or sale of a security or withdrawal or transfer of cash or securities.

**Part 14 Handling client accounts – firms**

*Division 1 Investment fund managers*

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

Other than sections 14.1.1, 14.5.1, 14.5.2, 14.5.3, 14.6, 14.6.1 and 14.6.2, 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 – investment fund managers**

A registered investment fund manager of an investment fund must, within a reasonable period of time, provide a registered dealer or a registered adviser that has a client that owns securities of the investment fund with the information that is required by the dealer or adviser in order for the dealer or adviser to comply with paragraph 14.12(1)(c), subsections 14.14(4) and (5), 14.14.1(2) and 14.14.2(1) and paragraph 14.17(1)(h).

#### *Division 2 Disclosure to clients*

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

**(0.1)** In this section, “proprietary product” means a security of an issuer if one or more of the following apply:

- (a) the issuer of the security is a connected issuer of the registered firm;
- (b) the issuer of the security is a related issuer of the registered firm;
- (c) the registered firm or an affiliate of the registered firm is the investment fund manager or portfolio manager of the issuer of the security.

**(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 to a client under that subsection must include the following:

- (a) a description of the nature or type of the client's account;
- (a.1) in the case of a registered firm that holds the client's assets, or directs or arranges which custodian will hold the client's assets, disclosure of the location where, and a general description of the manner in which, the client's assets are held, and a description of the risks and benefits to the client arising from the assets being held at that location and in that manner;
- (a.2) in the case of a registered firm that has access to the client's assets
  - (i) disclosure of the location where, and a general description of the manner in which, the client's assets are held, and a description of the risks and benefits to the client arising from the assets being held in that location and in that manner, and
  - (ii) a description of the manner in which the client's assets are accessible by the registered firm, and a description of the risks and benefits to the client arising from having access to the assets in that manner;
- (b) a general description of the products and services the registered firm will offer to the client, including
  - (i) a description of the restrictions on the client's ability to liquidate or resell a security, and
  - (ii) a statement of the investment fund management expense fees or other ongoing fees the client may incur in connection with a security or service the registered firm provides;
- (b.1) a general description of any limits on the products and services the registered firm will offer to the client, including
  - (i) whether the firm will primarily or exclusively offer proprietary products to the client, and
  - (ii) whether there will be other limits on the availability of products or services;
- (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 client's account;
  - (g) a general description of the types of transaction charges the client might be required to pay;
  - (h) a general description of any benefits received, or expected to be received, by the registrant, from a person or company other than the registrant's client, in connection with the client's purchase or ownership of a security through the registrant;
  - (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 must determine that any investment action it takes, recommends or decides on, for the client is suitable for the client and puts the client's interest first;
  - (l) the information the registered firm has collected about the client under section 13.2 [*know your client*];
  - (l.1) a description of the circumstances under which a registrant might disclose information about the client or the client's account to a trusted contact person in accordance with paragraph 13.2(2)(e);
  - (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 registered firm that, if those terms are 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;
  - (o) a general explanation of the potential impact on a client's investment returns from each of the fees described in subparagraph (b)(ii) and the charges described in paragraphs (f) and (g), including the effect of compounding over time;
  - (p) a general explanation of the circumstances under which a registered firm or registered individual may place a temporary hold under section 13.19 [*conditions for temporary hold*] and a description of the notice that will be given to the client, if a temporary hold is placed under that section.
- (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,
  - (c) whether the firm will receive trailing commissions in respect of the security, and
  - (d) whether there are any investment fund management expense fees or other ongoing fees that the client may incur in connection with 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 and investment fund assets*

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

Despite section 1.2, in Alberta, British Columbia, New Brunswick, Nova Scotia and Saskatchewan, a reference to “securities” in this Division excludes “exchange contracts”.

##### **14.5.2 Restriction on self-custody and qualified custodian requirement**

- (1)** A registered firm must not be a custodian or sub-custodian for a client of the firm or for an investment fund in respect of the client's or investment fund's cash or securities unless the registered firm
  - (a) is a Canadian custodian under paragraph (a), (b) or (d) of the definition of “Canadian custodian”, and
  - (b) has established and maintains a system of controls and supervision that a reasonable person would conclude is sufficient to manage the risks to the client or investment fund associated with the custody of the client's or investment fund's cash or securities.
- (2)** A registered firm must ensure that any custodian for a client of the firm or for an investment fund managed by the firm in respect of the client's or investment fund's cash or securities is a Canadian custodian if the firm
  - (a) directs or arranges which custodian will hold the cash or securities of the client or investment fund, or
  - (b) holds or has access to the cash or securities of the client or investment fund.
- (3)** Despite the requirement to use a Canadian custodian in subsection (2), a foreign custodian may be a custodian of the cash or securities of the client or investment fund if a reasonable person would conclude, considering all of the relevant circumstances, including, for greater certainty, the nature of the regulation and the sufficiency of the equity of the foreign custodian, that using the foreign custodian is more beneficial to the client or investment fund than using a Canadian custodian.
- (4)** Despite the requirement to use a Canadian custodian in subsection (2), a Canadian financial institution may be a custodian of the cash of the client or investment fund.
- (5)** For the purposes of subsections (2) and (3), the registered firm must ensure that the qualified custodian is functionally independent of the registered firm unless
  - (a) the qualified custodian is a Canadian custodian under paragraph (a), (b) or (d) of the definition of “Canadian custodian”, and
  - (b) the registered firm ensures that the qualified custodian has established and maintains a system of controls and supervision that a reasonable person would conclude is sufficient to manage the risks to the client or investment fund associated with the custody of the client's or investment fund's cash or securities.

- (6) For the purpose of subsection (4), the registered firm must ensure that the Canadian financial institution is functionally independent of the registered firm.
- (7) This section does not apply to a registered firm in respect of any of the following:
- (a) an investment fund that is subject to National Instrument 81-102 *Investment Funds*;
  - (b) an investment fund that is subject to National Instrument 41-101 *General Prospectus Requirements*;
  - (c) a security that is recorded on the books of the security's issuer, or the transfer agent of the security's issuer, only in the name of the client or investment fund;
  - (d) cash or securities of a permitted client, if the permitted client
    - (i) is not an individual or an investment fund, and
    - (ii) has acknowledged in writing that the permitted client is aware that the requirements in this section that would otherwise apply to the registered firm do not apply;
  - (e) customer collateral subject to custodial requirements under National Instrument 94-102 *Derivatives: Customer Clearing and Protection of Customer Collateral and Positions*;
  - (f) a security that evidences a debt obligation secured by a mortgage registered or published against the title of real estate if
    - (i) the mortgage is registered or published in the name of the client or investment fund as mortgagee, or
    - (ii) in the case of a syndicated mortgage, the mortgage is registered or published in the name of either of the following as mortgagee:
      - (A) a person or company that is registered or licensed under mortgage brokerage, mortgage administrators or mortgage dealer legislation of a jurisdiction of Canada if that mortgage is held in trust for the client or investment fund, as applicable;
      - (B) each investor that is a mortgagee in respect of that mortgage.

#### **14.5.3 Cash and Securities held by a qualified custodian**

A registered firm that is subject to subsection 14.5.2(2), (3) or (4) must take reasonable steps to ensure that cash and securities of a client or an investment fund,

- (a) except as provided in paragraphs (b) and (c), are held by the qualified custodian or, in respect of cash, the Canadian financial institution using an account number or other designation in the records of the qualified custodian or the Canadian financial institution, as applicable, sufficient to show that the beneficial ownership of the cash or securities of the client or investment fund is vested in that client or investment fund,
- (b) in the case of cash held in an account in the name of the registered firm, is held separate and apart from the registered firm's own property and held by the qualified custodian, or the Canadian financial institution, in a designated trust account in trust for clients or investment funds, or
- (c) in the case of cash or securities held for the purpose of bulk trading, are held in the name of the registered firm in trust for its clients or investment funds if the cash or securities are transferred to the client's or investment fund's account held by that client's or investment fund's qualified custodian or, in respect of cash, Canadian financial institution as soon as possible following a trade.

#### **14.6 Client and investment fund assets held by a registered firm in trust**

- (1) If a registered firm holds client assets or investment fund assets other than cash or securities, or if a registered firm holds cash or securities of a client or an investment fund as permitted by section 14.5.2, the registered firm must hold the assets
- (a) separate and apart from its own property,

- (b) in trust for the client or investment fund, and
  - (c) in the case of cash, in a designated trust account with a Canadian custodian or Canadian financial institution.
- (2) Despite paragraph (1)(c), a foreign custodian may be a custodian for the cash of the client or investment fund if a reasonable person would conclude, considering all of the relevant circumstances, including, for greater certainty, the nature of the regulation and the sufficiency of the equity of the foreign custodian, that using the foreign custodian is more beneficial to the client or investment fund than using a Canadian custodian or a Canadian financial institution.

#### **14.6.1 Custodial provisions relating to certain margin or security interests**

- (1) In this section,
- “cleared specified derivative”, “clearing corporation option”, “futures exchange”, “option on futures”, “specified derivative” and “standardized future” have the same meaning as in section 1.1 of National Instrument 81-102 *Investment Funds*;
- “regulated clearing agency” has the same meaning as in subsection 1(1) of National Instrument 94-101 *Mandatory Central Counterparty Clearing of Derivatives*.
- (2) Subsection 14.5.2(2) does not apply to a registered firm in respect of cash or securities of a client or investment fund deposited with a member of a regulated clearing agency or a dealer as margin for transactions outside of Canada involving clearing corporation options, options on futures, standardized futures or cleared specified derivatives if
- (a) the member or dealer is a member of a regulated clearing agency, futures exchange or stock exchange, and, as a result in any case, is subject to a regulatory audit,
  - (b) the member or dealer has a net worth, determined from its most recent audited financial statements, in excess of \$50 million, and
  - (c) a reasonable person would conclude that using the member or dealer is more beneficial to the client or investment fund than using a Canadian custodian.
- (3) Subsection 14.5.2(2) does not apply to a registered firm in respect of cash or securities of a client or investment fund deposited with the client’s or investment fund’s counterparty over which the client or investment fund has granted a security interest in connection with a particular specified derivatives transaction.
- (4) The registered firm must take reasonable steps to ensure that any agreement by which cash or securities of a client or investment fund are deposited in accordance with subsection (2) or (3) requires the person or company holding the cash or securities to ensure that its records show that the client or investment fund is the beneficial owner of the cash or securities.

#### **14.6.2 Custodial provisions relating to short sales**

Subsection 14.5.2(2) does not apply to a registered firm in respect of cash or securities of a client or investment fund deposited as security in connection with a short sale of securities with a dealer outside of Canada if

- (a) the dealer is a member of a stock exchange and is subject to a regulatory audit,
- (b) the dealer has a net worth, determined from its most recent audited financial statements, in excess of \$50 million, and
- (c) a reasonable person would conclude that using the dealer is more beneficial to the client or investment fund than using a Canadian custodian.

**14.7 [repealed]**

**14.8 [repealed]**

**14.9 [repealed]**

*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 the 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 the 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 market value in a statement under section 14.14 [*account statements*], 14.14.1 [*additional statements*], 14.14.2 [*security 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 market 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 section 14.14 [*account statements*], 14.14.1 [*additional statements*], 14.14.2 [*security position cost information*], 14.15 [*security holder statements*] or 14.16 [*scholarship plan dealer statements*] as not determinable, and the market value of the security must be excluded from the total market value referred to in paragraphs 14.14(5)(e), 14.14.1(2)(e) and 14.14.2(5)(c).

**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 in reliance on section 8.6 [*investment fund trades by adviser to managed account*].
- (7) In Newfoundland and Labrador, Ontario and Saskatchewan, a registered dealer that complies with the requirements of this section in respect of a purchase or sale of a security is not subject to any of subsections 37(1), (2) or (3) of the *Securities Act* (Newfoundland and Labrador), subsection 36(1) of the *Securities Act* (Ontario) and subsection 42(1) of *The Securities Act, 1988* (Saskatchewan).

#### 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 to receive 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 client's 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 to receive 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 purchased, sold or transferred;

- (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 client's 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 eligible for coverage under an investor protection fund approved or recognized by the securities regulatory authority and, if it is, the name of the investor protection 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 client's account 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) disclosure in respect of the party that holds or controls each security and a description of the way it is held;
  - (g) whether the securities are, or the account is, eligible for coverage under an investor protection fund approved or recognized by the securities regulatory authority;
  - (h) which of the securities might be subject to a deferred sales charge if they are sold.
- (2.1) Paragraph (2)(g) does not apply if the party referred to in paragraph (2)(f) is required under section 14.14, or under an IIROC provision or MFDA provision, to deliver a statement to the client in respect of the securities or the account referred to in subsection (1) of this section.
- (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 to receive 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 Security 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, presented on an average cost per unit or share basis or an aggregate basis,
    - (i) the cost of the security position, determined as at the end of the period for which the information referred to in subsection 14.14(5) or 14.14.1(2) is provided, 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 transfer of the security position;
  - (b) for each security position, in the statement, opened before July 15, 2015, presented on an average cost per unit or share basis or an aggregate basis,

- (i) the cost of the security position, determined as at the end of the period for which the information referred to in subsection 14.14(5) or 14.14.1(2) is provided, or
  - (ii) the market value of the security position on
    - (A) December 31, 2015, or
    - (B) a date that is earlier than December 31, 2015 if the registered firm reasonably believes accurate, recorded historical position cost information is available for the client's account, and it would not be misleading to the client to provide that information as at the earlier date;
  - (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.
- (2.1) If a registered firm reports one or more security positions of a client using the market value determined as at the date referred to in subparagraph (2)(a)(ii) or (2)(b)(ii), the firm must disclose in the statement that it is providing the market value of the security position as at the relevant date, instead of the cost of the security position.
- (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 the 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 [*security position cost information*].

#### 14.16 Scholarship plan dealer statements

Sections 14.14 [account statements], 14.14.1 [additional statements] and 14.14.2 [security 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 to a client a report on charges and other compensation containing the following information, 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 client's account paid by the client during the period covered by the report, and the total 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 total 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:

*"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 services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund."*

- (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 of the client's accounts.
- (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 client's account through which the securities 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 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 registered firm 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 that 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 of the client's accounts.
- (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 of the client's accounts 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 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) a client's account that has existed for less than a 12-month period;
  - (b) a registered dealer in respect of a client's 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) Despite subsection (1), a registered firm is not required to deliver a report to a client for a 12-month period referred to in that subsection if the firm reasonably believes
  - (a) there are no securities of the 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*], or
  - (b) no market value can be determined for any securities of the client in respect to which information is required to be reported under subsection 14.14(5) or 14.14.1(1).

#### 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 referred to 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 client's 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 client's 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) the market values determined under subsection (1.1);
- (e) **[repealed]**
- (f) the annual change in the market value of the client's 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 subsection (1.2), the cumulative change in the market value of the account since the account was opened, 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) **[repealed]**
- (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.

**(1.1)** For the purposes of paragraph (1)(d), the investment performance report must include the following, as applicable:

- (a) if the client's account was opened on or after July 15, 2015, the market value of all deposits and transfers of cash and securities into the client's account, and the market value of all withdrawals and transfers of cash and securities out of the account, since opening the account;
- (b) if the client's account was opened before July 15, 2015, and the firm has not delivered an investment performance report for the 12-month period ending December 31, 2016,
  - (i) the market value of all cash and securities in the client's account as at
    - (A) July 15, 2015, or
    - (B) a date that is earlier than July 15, 2015 if the registered firm reasonably believes accurate, recorded historical market value information is available for the client's account, and it would not be misleading to the client to provide that information as at the earlier date, and
  - (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 the date referred to in clause (i)(A) or (B), as applicable;
- (c) if the client's account was opened before July 15, 2015, and the firm delivered an investment performance report for the 12-month period ending December 31, 2016,
  - (i) the market value of all cash and securities in the client's account as at
    - (A) January 1, 2016, or
    - (B) a date that is earlier than January 1, 2016 if the registered firm reasonably believes accurate, recorded historical market value information is available for the client's account, and it would not be misleading to the client to provide that information as at the earlier date, and
  - (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 the date referred to in clause (i)(A) or (B), as applicable.

**(1.2)** Paragraph (1)(g) does not apply if the client's account was opened before July 15, 2015 and the registered firm includes in the investment performance report the cumulative change in the market value of the account determined using the following formula, instead of the formula in paragraph (g):

$$A - G - H + I$$

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 determined as follows:
  - (a) if the firm has not delivered an investment performance report for the 12-month period ending December 31, 2016, the market value of all cash and securities in the client's account as at
    - (i) July 15, 2015, or
    - (ii) a date that is earlier than July 15, 2015 if the registered firm reasonably believes accurate, recorded historical market value information is available for the client's account, and it would not be

misleading to the client to provide that information as at the earlier date,

- (b) if the firm has delivered an investment performance report for the 12-month period ending December 31, 2016, the market value of all cash and securities in the client's account as at

- (i) January 1, 2016, or

- (ii) a date that is earlier than January 1, 2016 if the registered firm reasonably believes accurate, recorded historical market value information is available for the client's account, and it would not be misleading to the client to provide that information as at the earlier date;

H = the market value of all deposits and transfers of cash and securities into the account since the date used for the purposes of the definition of "G"; and

I = the market value of all withdrawals and transfers of cash and securities out of the account since the date used for the purposes of the definition of "G".

- (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) subject to subsection (3.1), the period since the client's 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, the period since
  - (i) July 15, 2015, or
  - (ii) a date that is earlier than July 15, 2015 if the registered firm reasonably believes accurate, recorded annualized total percentage return information is available for the client's account, and it would not be misleading to the client to provide that information as at the earlier date.

- (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.

- (3.1) Paragraph (2)(e) does not apply to a registered firm that delivered an investment performance report for the 12-month period ending December 31, 2016 if the firm provides, in the report, the annualized total percentage return information referred to in that paragraph for the period since

- (a) January 1, 2016, or

- (b) a date that is earlier than January 1, 2016 if the registered firm reasonably believes accurate, recorded annualized total percentage return information is available for the client's account, and it would not be misleading to the client to provide that information as at the earlier date.

- (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 to the client, at 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 Alberta and 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 [lapsed]

16.5 [lapsed]

16.6 [lapsed]

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 [lapsed]

**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 [lapsed]

16.14 [lapsed]

16.15 [lapsed]

16.16 [lapsed]

16.17 [lapsed]

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.

**FORM 31-103F1 CALCULATION OF EXCESS WORKING CAPITAL**

\_\_\_\_\_  
Firm Name

Capital Calculation

(as at \_\_\_\_\_ with comparative figures as at \_\_\_\_\_)

	<b>Component</b>	<b>Current period</b>	<b>Prior period</b>
1.	Current assets		
2.	Less current assets not readily convertible into cash (e.g., prepaid expenses)		
3.	Adjusted current assets  Line 1 minus line 2 =		
4.	Current liabilities		
5.	Add 100% of non-current related party debt unless the firm and the lender have executed a subordination agreement in the form set out in Appendix B of National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> and the firm has delivered a copy of the agreement to the regulator or, in Québec, the securities regulatory authority. See section 12.2 of National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> .		
6.	Adjusted current liabilities  Line 4 plus line 5 =		
7.	Adjusted working capital		

	Line 3 minus line 6 =		
8.	Less minimum capital		
9.	Less market risk		
10.	Less any deductible under the bonding or insurance policy required under Part 12 of National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> or, in Québec, for a firm registered only in that jurisdiction and solely in the category of mutual fund dealer, less the deductible under the liability insurance required under section 193 of the Québec Securities Regulation		
11.	Less Guarantees		
12.	Less unresolved differences		
13.	<b>Excess working capital</b>		

**Notes:**

Form 31-103F1 *Calculation of Excess Working Capital* must be prepared using the accounting principles that you use to prepare your financial statements in accordance with National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*. Section 12.1 of Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* provides further guidance in respect of these accounting principles.

**Line 5. Related-party debt** – Refer to the CICA Handbook for the definition of “related party” for publicly accountable enterprises. The firm is required to deliver a copy of the executed subordination agreement to the regulator or, in Québec, the securities regulatory authority on the earlier of a) 10 days after the date the agreement is executed or b) the date an amount subordinated by the agreement is excluded from its calculation of excess working capital on Form 31-103F1 *Calculation of Excess Working Capital*. **The firm must notify the regulator or, in Québec, the securities regulatory authority, 10 days before it repays the loan (in whole or in part), or terminates the subordination agreement.** See section 12.2 of National Instrument 31-103 *Registration Requirements Exemptions and Ongoing Registrant Obligations*.

**Line 8. Minimum Capital** – The amount on this line must be not less than (a) \$25,000 for an adviser and (b) \$50,000 for a dealer. For an investment fund manager, the amount must be not less than \$100,000 unless subsection 12.1(4) of National Instrument 31-103 *Registration Requirements Exemptions and Ongoing Registrant Obligations* applies.

**Line 9. Market Risk** – The amount on this line must be calculated according to the instructions set out in Schedule 1 to Form 31-103F1 *Calculation of Excess Working Capital*. A schedule supporting the calculation of any amounts included in Line 9 as market risk should be provided to the regulator or, in Québec, the securities regulatory authority in conjunction with the submission of Form 31-103F1 *Calculation of Excess Working Capital*.

**Line 11. Guarantees** – If the registered firm is guaranteeing the liability of another party, the total amount of the guarantee must be included in the capital calculation. If the amount of a guarantee is included in the firm's statement of financial position as a current liability and is reflected in line 4, do not include the amount of the guarantee on line 11.

**Line 12. Unresolved differences** – Any unresolved differences that could result in a loss from either firm or client assets must be included in the capital calculation. The examples below provide guidance as to how to calculate unresolved differences:

- (i) If there is an unresolved difference relating to client securities, the amount to be reported on Line 12 will be equal to the fair value of the client securities that are short, plus the applicable margin rate for those securities.
- (ii) If there is an unresolved difference relating to the registrant's investments, the amount to be reported on Line 12 will be equal to the fair value of the investments (securities) that are short.
- (iii) If there is an unresolved difference relating to cash, the amount to be reported on Line 12 will be equal to the amount of the shortfall in cash.

Please refer to section 12.1 of Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* for further guidance on how to prepare and file Form 31-103F1 *Calculation of Excess Working Capital*.

**Management Certification**

**Registered Firm Name:** \_\_\_\_\_

We have examined the attached capital calculation and certify that the firm is in compliance with the capital requirements as at \_\_\_\_\_.

**Name and Title**

**Signature**

**Date**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

# **Schedule 1 of Form 31-103F1 Calculation of Excess Working Capital**

## **(calculating line 9 [market risk])**

For purposes of completing this form:

- (1) "Fair value" means the value of a security determined in accordance with Canadian GAAP applicable to publicly accountable enterprises.
- (2) For each security whose value is included in line 1, Current Assets, multiply the fair value of the security by the margin rate for that security set out below. Add up the resulting amounts for all of the securities you hold. The total is the "market risk" to be entered on line 9.

### **(a) Bonds, Debentures, Treasury Bills and Notes**

- (i) Bonds, debentures, treasury bills and other securities of or guaranteed by the Government of Canada, of the United Kingdom, of the United States of America or of any other national foreign government (provided those foreign government securities have a current credit rating described in subparagraph (i.1)) maturing (or called for redemption):

within 1 year:	1% of fair value multiplied by the fraction determined by dividing the number of days to maturing by 365
over 1 year to 3 years:	1 % of fair value
over 3 years to 7 years:	2% of fair value
over 7 years to 11 years:	4% of fair value
over 11 years:	4% of fair value

- (i.1) A credit rating from a designated rating organization listed below, from a DRO affiliate of an organization listed below, from a designated rating organization that is a successor credit rating organization of an organization listed below or from a DRO affiliate of such successor credit rating organization, that is the same as one of the following corresponding rating categories or that is the same as a category that replaces one of the following corresponding rating categories:

<b>Designated Rating Organization</b>	<b>Long Term Debt</b>	<b>Short Term Debt</b>
DBRS Limited	AAA	R-1(high)
Fitch Ratings, Inc.	AAA	F1+
Moody's Canada Inc.	Aaa	Prime-1
S&P Global Ratings Canada	AAA	A-1+

- (ii) Bonds, debentures, treasury bills and other securities of or guaranteed by any jurisdiction of Canada and obligations of the International Bank for Reconstruction and Development, maturing (or called for redemption):

within 1 year:	2% of fair value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year to 3 years:	3 % of fair value
over 3 years to 7 years:	4% of fair value
over 7 years to 11 years:	5% of fair value
over 11 years:	5% of fair value

- (iii) Bonds, debentures or notes (not in default) of or guaranteed by any municipal corporation in Canada or the United Kingdom maturing:

within 1 year:	3% of fair value multiplied by the fraction determined by dividing the number of days to maturity by 365
over 1 year to 3 years:	5 % of fair value
over 3 years to 7 years:	5% of fair value
over 7 years to 11 years:	5% of fair value
over 11 years:	5% of fair value

- (iv) Other non-commercial bonds and debentures, (not in default): 10% of fair value
- (v) Commercial and corporate bonds, debentures and notes (not in default) and non-negotiable and non-transferable trust company and mortgage loan company obligations registered in the registered firm's name maturing:
  - within 1 year: 3% of fair value
  - over 1 year to 3 years: 6 % of fair value
  - over 3 years to 7 years: 7% of fair value
  - over 7 years to 11 years: 10% of fair value
  - over 11 years: 10% of fair value

**(b) Bank Paper**

Deposit certificates, promissory notes or debentures issued by a Canadian chartered bank (and of Canadian chartered bank acceptances) maturing:

- within 1 year: 2% of fair value multiplied by the fraction determined by dividing the number of days to maturity by 365
- over 1 year: apply rates for commercial and corporate bonds, debentures and notes

**(c) Acceptable foreign bank paper**

Deposit certificates, promissory notes or debentures issued by a foreign bank, readily negotiable and transferable and maturing:

- within 1 year: 2% of fair value multiplied by the fraction determined by dividing the number of days to maturity by 365
- over 1 year: apply rates for commercial and corporate bonds, debentures and notes

"Acceptable Foreign Bank Paper" consists of deposit certificates or promissory notes issued by a bank other than a Canadian chartered bank with a net worth (i.e., capital plus reserves) of not less than \$200,000,000.

**(d) Mutual Funds**

Securities of mutual funds qualified by prospectus for sale in any jurisdiction of Canada:

- (i) 5% of the net asset value per security as determined in accordance with National Instrument 81-106 *Investment Fund Continuous Disclosure*, where the fund is a money market mutual fund as defined in National Instrument 81-102 *Investment Funds*; or
- (ii) the margin rate determined on the same basis as for listed stocks multiplied by the net asset value per security of the fund as determined in accordance with National Instrument 81-106 *Investment Fund Continuous Disclosure*.

Securities of mutual funds qualified by prospectus for sale in the United States of America: 5% of the net asset value per security if the fund is registered as an investment company under the *Investment Company Act of 1940*, as amended from time to time, and complies with Rule 2a-7 thereof.

**(e) Stocks**

In this paragraph, "securities" includes rights and warrants and does not include bonds and debentures.

- (i) On securities including investment fund securities, rights and warrants, listed on any exchange in Canada or the United States of America:

Long Positions – Margin Required

Securities selling at \$2.00 or more – 50% of fair value

Securities selling at \$1.75 to \$1.99 – 60% of fair value

Securities selling at \$1.50 to \$1.74 – 80% of fair value

Securities selling under \$1.50 – 100% of fair value

Short Positions – Credit Required

Securities selling at \$2.00 or more – 150% of fair value

Securities selling at \$1.50 to \$1.99 – \$3.00 per share

Securities selling at \$0.25 to \$1.49 – 200% of fair value

Securities selling at less than \$0.25 – fair value plus \$0.25 per share

- (ii) For positions in securities that are constituent securities on a major broadly-based index of one of the following exchanges, 50% of the fair value:
  - (a) Australian Stock Exchange Limited
  - (b) Bolsa de Madrid
  - (c) Borsa Italiana
  - (d) Copenhagen Stock Exchange
  - (e) Euronext Amsterdam
  - (f) Euronext Brussels
  - (g) Euronext Paris S.A.
  - (h) Frankfurt Stock Exchange
  - (i) London Stock Exchange
  - (j) New Zealand Exchange Limited
  - (k) Stockholm Stock Exchange
  - (l) SIX Swiss Exchange
  - (m) The Stock Exchange of Hong Kong Limited
  - (n) Tokyo Stock Exchange

**(f) Mortgages**

- (i) For a firm registered in any jurisdiction of Canada except Ontario:
  - (a) Insured mortgages (not in default): 6% of fair value
  - (b) Mortgages which are not insured (not in default): 12% of fair value.
- (ii) For a firm registered in Ontario:
  - (a) Mortgages insured under the *National Housing Act* (Canada) (not in default): 6% of fair value
  - (b) Conventional first mortgages (not in default): 12% of fair value.

If you are registered in Ontario regardless of whether you are also registered in another jurisdiction of Canada, you will need to apply the margin rates set forth in (ii) above.
--

- (g) For all other securities – 100% of fair value.**

**FORM 31-103F2 SUBMISSION TO JURISDICTION AND APPOINTMENT OF AGENT FOR SERVICE**

**(sections 8.18 [international dealer] and 8.26 [international adviser])**

1. Name of person or company ("International Firm"):
2. If the International Firm was previously assigned an NRD number as a registered firm or an unregistered exempt international firm, provide the NRD number of the firm.
3. Jurisdiction of incorporation of the International Firm:
4. Head office address of the International Firm:
5. The name, e-mail address, phone number and fax number of the International Firm's chief compliance officer.  
Name:  
E-mail address:  
Phone:  
Fax:
6. Section of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* the International Firm is relying on:  
☐ Section 8.18 [international dealer]  
☐ Section 8.26 [international adviser]  
☐ Other
7. Name of agent for service of process (the "Agent for Service"):
8. Address for service of process on the Agent for Service:
9. The International Firm designates and appoints the Agent for Service at the address stated above as its agent upon whom may be served a notice, pleading, subpoena, summons or other process in any action, investigation or administrative, criminal, quasi-criminal or other proceeding (a "Proceeding") arising out of or relating to or concerning the International Firm's activities in the local jurisdiction and irrevocably waives any right to raise as a defence in any such proceeding any alleged lack of jurisdiction to bring such Proceeding.
10. The International Firm irrevocably and unconditionally submits to the non-exclusive jurisdiction of the judicial, quasi-judicial and administrative tribunals of the local jurisdiction in any Proceeding arising out of or related to or concerning the International Firm's activities in the local jurisdiction.
11. Until 6 years after the International Firm ceases to rely on section 8.18 [international dealer] or section 8.26 [international adviser], the International Firm must submit to the securities regulatory authority
  - a. a new Submission to Jurisdiction and Appointment of Agent for Service in this form no later than the 30th day before the date this Submission to Jurisdiction and Appointment of Agent for Service is terminated; and
  - b. an amended Submission to Jurisdiction and Appointment of Agent for Service no later than the 30th day before any change in the name or above address of the Agent for Service.
12. This Submission to Jurisdiction and Appointment of Agent for Service is governed by and construed in accordance with the laws of the local jurisdiction.

Dated: \_\_\_\_\_

\_\_\_\_\_  
(Signature of the International Firm or authorized signatory)

(Name and Title of authorized signatory)

**Acceptance**

The undersigned accepts the appointment as Agent for Service of (Insert name of International Firm) under the terms and conditions of the foregoing Submission to Jurisdiction and Appointment of Agent for Service.

Dated: \_\_\_\_\_

\_\_\_\_\_  
(Signature of Agent for Service or authorized signatory)

\_\_\_\_\_  
(Name and Title of authorized signatory)

**FORM 31-103F3 USE OF MOBILITY EXEMPTION**

**(section 2.2 [client mobility exemption – individuals])**

This is to notify the securities regulatory authority that the individual named in paragraph 1 is relying on the exemption in section 2.2 [client mobility exemption – individuals] of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

**1. Individual information**

Name of individual: \_\_\_\_\_

NRD number of individual: \_\_\_\_\_

The individual is relying on the client mobility exemption in each of the following jurisdictions of Canada:

\_\_\_\_\_  
\_\_\_\_\_

**2. Firm information**

Name of the individual's sponsoring firm: \_\_\_\_\_

NRD number of firm: \_\_\_\_\_

Dated: \_\_\_\_\_

\_\_\_\_\_  
(Signature of an authorized signatory of the individual's sponsoring firm)

\_\_\_\_\_  
(Name and title of authorized signatory)

**FORM 31-103F4 NET ASSET VALUE ADJUSTMENTS**

**(Section 12.14 [*delivering financial information – investment fund manager*])**

This is to notify the regulator or, in Québec, the securities regulatory authority, of a net asset value (NAV) adjustment made in respect of an investment fund managed by the investment fund manager in accordance with paragraph 12.14(1)(c) or paragraph 12.14(2)(c). All of the information requested should be provided on a fund by fund basis. Please attach a schedule if necessary.

1. Name of the investment fund manager:
2. Name of each of the investment funds for which a NAV adjustment occurred:
3. Date(s) the NAV error occurred:
4. Date the NAV error was discovered:
5. Date of the NAV adjustment:
6. Original total NAV on the date the NAV error first occurred:
7. Original NAV per unit on each date(s) the NAV error occurred:
8. Revised NAV per unit on each date(s) the NAV error occurred:
9. NAV error as percentage (%) of the original NAV on each date(s) the NAV error occurred:
10. Total dollar amount of the NAV adjustment:
11. Effect (if any) of the NAV adjustment per unit or share:
12. Total amount reimbursed to security holders, or any corrections made to purchase and redemption transactions affecting the security holders of each investment fund affected, if any:
13. Date of the NAV reimbursement or correction to security holder transactions, if any:
14. Total amount reimbursed to investment fund, if any:
15. Date of the reimbursement to investment fund, if any:
16. Description of the cause of the NAV error:
17. Was the NAV error discovered by the investment fund manager?  
Yes ☐ No ☐
18. If No, who discovered the NAV error?
19. Was the NAV adjustment a result of a material error under the investment fund manager's policies and procedures? :  
Yes ☐ No ☐
20. Have the investment fund manager's policies and procedures been changed following the NAV adjustment?  
Yes ☐ No ☐
21. If Yes, describe the changes:
22. If No, explain why not:
23. Has the NAV adjustment been communicated to security holders of each of the investment funds affected?

Yes ☐ No ☐

24. If Yes, describe the communications:

**Notes:**

**Line 2. NAV adjustment** – Refers to the correction made to make the investment fund's NAV accurate.

**Line 3. NAV error** – Refers to the error discovered on the Original NAV. Please refer to Section 12.14 of *Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations* for guidance on NAV error and causes of NAV errors.

**Line 3. Date(s) the NAV error occurred** – Means the date of the NAV error first occurred and the subsequent dates of the NAV error.

**Line 8. Revised NAV per unit** – Refers to the NAV per unit calculated after taking into account the NAV error.

**Line 9. NAV error as a percentage (%) of the original NAV** – Refers to the following calculation:

$$(\text{Revised NAV} / \text{Original NAV}) - 1 \times 100$$

**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 IIROC MEMBERS**

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

<b>NI 31-103 Provision</b>	<b>IIROC Provision</b>
section 12.1 [ <i>capital requirements</i> ]	1. Dealer Member Rule 17.1; and 2. Form 1
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 17.5 2. Dealer Member Rule 400.2 [ <i>Financial Institution Bond</i> ]; 3. Dealer Member Rule 400.4 [ <i>Amounts Required</i> ]; and 4. 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
section 12.11 [ <i>interim financial information</i> ]	1. Dealer Member Rule 16.2 [ <i>Dealer Member Filing Requirements</i> ]; and 2. Form 1
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, Part II [ <i>Opening New Accounts</i> ]; 4. Dealer Member Rule 2700, Part II [ <i>New Account Documentation and Approval</i> ]; and 5. Form 2 <i>New Client Application Form</i>
section 13.3 [ <i>suitability determination</i> ]	1. Dealer Member Rule 1300.1(o) [ <i>Business Conduct</i> ]; 2. Dealer Member Rule 1300.1(p) [ <i>Suitability determination required when accepting order</i> ]; 3. Dealer Member Rule 1300.1(q) [ <i>Suitability determination required when recommendation provided</i> ]; 4. Dealer Member Rule 1300.1(r) [ <i>Suitability determination required for account positions held when certain events occur</i> ]; 5. Dealer Member Rule 1300.1(s) [ <i>Suitability of investments in client accounts</i> ]; 6. Dealer Member Rule 1300.1(t) – (v) [ <i>Exemptions from the suitability assessment requirements</i> ]; 7. Dealer Member Rule 1300.1(w) [ <i>Corporation approval</i> ]; 8. Dealer Member Rule 2700, Part I [ <i>Customer Suitability</i> ]; and 9. Dealer Member Rule 3200 [ <i>Minimum requirements for Dealer Members seeking approval under Rule 1300.1(t) to offer an order-execution only service</i> ]
section 13.3.1 [ <i>waivers</i> ]	1. Dealer Member Rule 1300.1(o) [ <i>Business Conduct</i> ]; 2. Dealer Member Rule 1300.1(p) [ <i>Suitability determination required when accepting order</i> ];

NI 31-103 Provision	IIROC Provision
	<ol style="list-style-type: none"> <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) [<i>Suitability determination required for account positions held when certain events occur</i>];</li> <li>5. Dealer Member Rule 1300.1(s) [<i>Suitability of investments in client accounts</i>];</li> <li>6. Dealer Member Rule 1300.1(t) – (v) [<i>Exemptions from the suitability assessment requirements</i>];</li> <li>7. Dealer Member Rule 1300.1(w) [<i>Corporation approval</i>];</li> <li>8. Dealer Member Rule 2700, Part I [<i>Customer Suitability</i>]; and</li> <li>9. Dealer Member Rule 3200 [<i>Minimum requirements for Dealer Members seeking approval under Rule 1300.1(t) to offer an order-execution only service</i>]</li> </ol>
section 13.12 [ <i>restriction on borrowing from, or lending to, clients</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 17.11; and</li> <li>2. Dealer Member Rule 100 [<i>Margin Requirements</i>]</li> </ol>
section 13.13 [ <i>disclosure when recommending the use of borrowed money</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 29.26</li> </ol>
section 13.15 [ <i>handling complaints</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 2500, Part VIII [<i>Client Complaints</i>]; and</li> <li>2. Dealer Member Rule 2500B [<i>Client Complaint Handling</i>]</li> </ol>
subsection 14.2(2) [ <i>relationship disclosure information</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 3500.5 [<i>Content of relationship disclosure</i>]</li> </ol>
subsection 14.2(3) [ <i>relationship disclosure information</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 3500.4 [<i>Format of relationship disclosure</i>]</li> </ol>
subsection 14.2(4) [ <i>relationship disclosure information</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 3500.1 [<i>Objective of relationship disclosure requirements</i>]</li> </ol>
subsection 14.2(5.1) [ <i>relationship disclosure information</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 29.8</li> </ol>
subsection 14.2(6) [ <i>relationship disclosure information</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 3500.1 [<i>Objective of relationship disclosure requirements</i>]</li> </ol>
section 14.2.1 [ <i>pre-trade disclosure of charges</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 29.9</li> </ol>
section 14.5.2 [ <i>restriction on self-custody and qualified custodian requirement</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 17.2A [<i>Establishment and maintenance of adequate internal controls in accordance with Dealer Member Rule 2600</i>];</li> <li>2. Dealer Member Rules 17.3, 17.3A, 17.3B and 2000 [<i>Segregation Requirements</i>];</li> <li>3. Dealer Member Rule 2600 – Internal Control Policy Statement 4 [<i>Segregation of Clients’ Securities</i>];</li> <li>4. Dealer Member Rule 2600 - Internal Control Policy Statement 5 [<i>Safekeeping of Clients’ Securities</i>];</li> <li>5. Dealer Member Rule 2600 - Internal Control Policy Statement 6 [<i>Safeguarding of Securities and Cash</i>]; and</li> <li>6. Definition of “acceptable securities locations”, General Notes and Definitions to Form 1</li> </ol>
section 14.5.3 [ <i>cash and securities held by a qualified custodian</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 200 [<i>Minimum Records</i>]</li> </ol>
section 14.6 [ <i>client and investment fund assets held by a registered firm in trust</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 17.3</li> </ol>
section 14.6.1 [ <i>custodial provisions relating to certain margin or security interests</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rules 17.2, 17.2A, 17.3, 17.3A, 17.3B, 17.11 and 2000 [<i>Segregation Requirements</i>];</li> <li>2. Dealer Member Rule 100 [<i>Margin Requirements</i>];</li> <li>3. Dealer Member Rule 2200 [<i>Cash and Securities Loan Transactions</i>];</li> </ol>

NI 31-103 Provision	IIROC Provision
	<ol style="list-style-type: none"> <li>4. Dealer Member Rule 2600 – Internal Control Policy Statement 4 [<i>Segregation of Clients’ Securities</i>];</li> <li>5. Dealer Member Rule 2600 - Internal Control Policy Statement 5 [<i>Safekeeping of Clients’ Securities</i>];</li> <li>6. Dealer Member Rule 2600 - Internal Control Policy Statement 6 [<i>Safeguarding of Securities and Cash</i>]; and</li> <li>7. Definitions of “acceptable counterparties”, “acceptable institutions”, “acceptable securities locations”, “regulated entities”, General Notes and Definitions to Form 1</li> </ol>
section 14.6.2 [ <i>custodial provisions relating to short sales</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 100 [<i>Margin Requirements</i>];</li> <li>2. Dealer Member Rule 2200 [<i>Cash and Securities Loan Transactions</i>];</li> <li>3. Dealer Member Rule 2600 – Internal Control Policy Statement 6 [<i>Safeguarding of Securities and Cash</i>]; and</li> <li>4. Definitions of “acceptable counterparties”, “acceptable institutions”, “acceptable securities locations”, “regulated entities”, General Notes and Definitions to Form 1</li> </ol>
section 14.11.1 [ <i>determining market value</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 200.1(c); and</li> <li>2. Definition (g) of the General Notes and Definitions to Form 1</li> </ol>
section 14.12 [ <i>content and delivery of trade confirmation</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 200.2(l) [<i>Trade confirmations</i>]</li> </ol>
section 14.14 [ <i>account statements</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 200.2(d) [<i>Client account statements</i>]; and</li> <li>2. “Guide to Interpretation of Rule 200.2”, Item (d)</li> </ol>
section 14.14.1 [ <i>additional statements</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 200.2(e) [<i>Report on client positions held outside of the Dealer Member</i>];</li> <li>2. Dealer Member Rule 200.4 [<i>Timing of sending documents to clients</i>]; and</li> <li>3. “Guide to Interpretation of Rule 200.2”, Item (e)</li> </ol>
section 14.14.2 [ <i>security position cost information</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 200.1(a);</li> <li>2. Dealer Member Rule 200.1(b);</li> <li>3. Dealer Member Rule 200.1(e);</li> <li>4. Dealer Member Rule 200.2(d)(ii)(F) and (H); and</li> <li>5. Dealer Member Rule 200.2(e)(ii)(C) and (E)</li> </ol>
section 14.17 [ <i>report on charges and other compensation</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 200.2(g) [<i>Fee/ charge report</i>]; and</li> <li>2. “Guide to Interpretation of Rule 200.2”, Item (g)</li> </ol>
section 14.18 [ <i>investment performance report</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 200.2(f) [<i>Performance report</i>]; and</li> <li>2. “Guide to Interpretation of Rule 200.2”, Item (f)</li> </ol>
section 14.19 [ <i>content of investment performance report</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 200.2(f) [<i>Performance report</i>]; and</li> <li>2. “Guide to Interpretation of Rule 200.2”, Item (f)</li> </ol>
section 14.20 [ <i>delivery of report on charges and other compensation and investment performance report</i> ]	<ol style="list-style-type: none"> <li>1. Dealer Member Rule 200.4 [<i>Timing of the sending of documents to clients</i>]</li> </ol>

## APPENDIX H – EXEMPTIONS FROM CERTAIN REQUIREMENTS FOR MFDA MEMBERS

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

NI 31-103 Provision	MFDA Provision
section 12.1 [capital requirements]	<ol style="list-style-type: none"> <li>1. Rule 3.1.1 [Minimum Levels];</li> <li>2. Rule 3.1.2 [Notice];</li> <li>3. Rule 3.2.2 [Member Capital];</li> <li>4. Form 1; and</li> <li>5. Policy No. 4 [Internal Control Policy Statements – Policy Statement 2: Capital Adequacy]</li> </ol>
section 12.2 [subordination agreement]	<ol style="list-style-type: none"> <li>1. Form 1, Statement F [Statement of Changes in Subordinated Loans]; and</li> <li>2. Membership Application Package – Schedule I (Subordinated Loan Agreement)</li> </ol>
section 12.3 [insurance – dealer]	<ol style="list-style-type: none"> <li>1. Rule 4.1 [Financial Institution Bond];</li> <li>2. Rule 4.4 [Amounts Required];</li> <li>3. Rule 4.5 [Provisos];</li> <li>4. Rule 4.6 [Qualified Carriers]; and</li> <li>5. Policy No. 4 [Internal Control Policy Statements – Policy Statement 3: Insurance]</li> </ol>
section 12.6 [global bonding or insurance]	<ol style="list-style-type: none"> <li>1. Rule 4.7 [Global Financial Institution Bonds]</li> </ol>
section 12.7 [notifying the regulator of a change, claim or cancellation]	<ol style="list-style-type: none"> <li>1. Rule 4.2 [Notice of Termination]; and</li> <li>2. Rule 4.3 [Termination or Cancellation]</li> </ol>
section 12.10 [annual financial statements]	<ol style="list-style-type: none"> <li>1. Rule 3.5.1 [Monthly and Annual];</li> <li>2. Rule 3.5.2 [Combined Financial Statements]; and</li> <li>3. Form 1</li> </ol>
section 12.11 [interim financial information]	<ol style="list-style-type: none"> <li>1. Rule 3.5.1 [Monthly and Annual];</li> <li>2. Rule 3.5.2 [Combined Financial Statements]; and</li> <li>3. Form 1</li> </ol>
section 12.12 [delivering financial information – dealer]	<ol style="list-style-type: none"> <li>1. Rule 3.5.1 [Monthly and Annual]</li> </ol>
section 13.3 [suitability determination]	<ol style="list-style-type: none"> <li>1. Rule 2.2.1 [“Know-Your-Client”]; and</li> <li>2. Policy No. 2 [Minimum Standards for Account Supervision]</li> </ol>
section 13.3.1 [waivers]	<ol style="list-style-type: none"> <li>1. Rule 2.2.1 [“Know-Your-Client”]; and</li> <li>2. Policy No. 2 [Minimum Standards for Account Supervision]</li> </ol>
section 13.12 [restriction on borrowing from, or lending to, clients]	<ol style="list-style-type: none"> <li>1. Rule 3.2.1 [Client Lending and Margin]; and</li> <li>2. Rule 3.2.3 [Advancing Mutual Fund Redemption Proceeds]</li> </ol>
section 13.13 [disclosure when recommending the use of borrowed money]	<ol style="list-style-type: none"> <li>1. Rule 2.6 [Borrowing for Securities Purchases]</li> </ol>
section 13.15 [handling complaints]	<ol style="list-style-type: none"> <li>1. Rule 2.11 [Complaints];</li> <li>2. Policy No. 3 [Complaint Handling, Supervisory Investigations and Internal Discipline]; and</li> <li>3. Policy No. 6 [Information Reporting Requirements]</li> </ol>

<b>NI 31-103 Provision</b>	<b>MFDA Provision</b>
subsections 14.2(2), (3) and (5.1) [relationship disclosure information]	1. Rule 2.2.5 [Relationship Disclosure]; and 2. Rule 2.4.3 [Operating Charges]
section 14.2.1 [pre-trade disclosure of charges]	1. Rule 2.4.4 [Transaction Fees or Charges]
section 14.5.2 [restriction on self-custody and qualified custodian requirement]	1. Rule 3.3.1 [General]; 2. Rule 3.3.2 [Cash]; 3. Rule 3.3.3 [Securities]; and 4. Policy No. 4 [Internal Control Policy Statements – Policy Statement 4: Cash and Securities, and Policy Statement 5: Segregation of Clients' Securities]
section 14.5.3 [cash and securities held by a qualified custodian]	1. Policy No. 4 [Internal Control Policy Statements – Policy Statement 4: Cash and Securities, and Policy Statement 5: Segregation of Clients' Securities]
section 14.6 [client and investment fund assets held by a registered firm in trust]	1. Rule 3.3.1 [General]; 2. Rule 3.3.2 [Cash]; 3. Rule 3.3.3 [Securities]; and 4. Policy No. 4 [Internal Control Policy Statements – Policy Statement 4: Cash and Securities, and Policy Statement 5: Segregation of Clients' Securities]
section 14.6.1 [custodial provisions relating to certain margin or security interests]	1. Rule 3.2.1 [Client Lending and Margin]
section 14.6.2 [custodial provisions relating to short sales]	1. Rule 3.2.1 [Client Lending and Margin]
section 14.11.1 [determining market value]	1. Rule 5.3(1)(f) [definition of "market value"]; and 2. Definitions to Form 1 [definition of "market value of a security"]
section 14.12 [content and delivery of trade confirmation]	1. Rule 5.4.1 [Delivery of Confirmations]; 2. Rule 5.4.2 [Automatic Plans]; and 3. Rule 5.4.3 [Content]
section 14.14 [account statements]	1. Rule 5.3.1 [Delivery of Account Statement]; and 2. Rule 5.3.2 [Content of Account Statement]
section 14.14.1 [additional statements]	1. Rule 5.3.1 [Delivery of Account Statement]; and 2. Rule 5.3.2 [Content of Account Statement]
section 14.14.2 [security position cost information]	1. Rule 5.3(1)(a) [definition of "book cost"]; 2. Rule 5.3(1)(c) [definition of "cost"]; and 3. Rule 5.3.2(c) [Content of Account Statement – Market Value and Cost Reporting]
section 14.17 [report on charges and other compensation]	1. Rule 5.3.3 [Report on Charges and Other Compensation]
section 14.18 [investment performance report]	1. Rule 5.3.4 [Performance Report]; and 2. Policy No. 7 Performance Reporting
section 14.19 [content of investment performance report]	1. Rule 5.3.4 [Performance Report]; and 2. Policy No. 7 Performance Reporting
section 14.20 [delivery of report on charges and other compensation and investment performance report]	1. Rule 5.3.5 [Delivery of Report on Charges and Other Compensation and Performance Report]

**ANNEX C**  
**PROPOSED CHANGES TO**  
**COMPANION POLICY 31-103CP**  
***REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT***  
***OBLIGATIONS***

8. *Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations is changed by this Document.*

9. *Section 1.2 is changed by adding the following at the end of the section:*

**Definitions related to vulnerable clients**

Appendix G provides guidance on the terms “financial exploitation”, “mental capacity”, “temporary hold ” and “vulnerable client”..

10. *Section 13.2 is changed by adding the following:*

**“Identifying a trusted contact person of a client**

Appendix G sets out how we interpret the requirements under paragraph 13.2(2)(e) and section 13.19 relating to the trusted contact person and temporary hold requirements. It also provides general commentary and guidance surrounding issues of financial exploitation of vulnerable clients and decline in clients’ mental capacity.” *immediately after the sentence* “This exemption does not change an insider’s reporting and conduct responsibilities.”.

11. *Part 13 is changed by adding the following at the end of the part:*

*Division 8 Temporary holds*

**13.19 Conditions for temporary hold**

Appendix G sets out how we interpret the requirements under paragraph 13.2(2)(e) and section 13.19 relating to the trusted contact person and temporary holds. It also provides general commentary and guidance surrounding issues of financial exploitation of vulnerable clients and decline in clients’ mental capacity..

12. *The Document is changed by adding the following appendix:*

**Appendix G - Part 13 - Assisting Vulnerable Clients**

This appendix sets out how we interpret the requirements under paragraph 13.2(2)(e) and section 13.19 relating to the trusted contact person and temporary holds. This appendix also provides general commentary and guidance surrounding issues of financial exploitation of vulnerable clients and decline in clients’ mental capacity.

## ***1. Definitions***

### ***Financial exploitation***

Financial exploitation of vulnerable clients may be committed by any person or company; however, it is often committed by an individual who is close to the vulnerable client, such as a family member, good friend, neighbour or trusted individual such as an attorney under a power of attorney (POA), service provider or caregiver. Warning signs that a client could be subject to financial exploitation include:

- unexplained or sudden withdrawals from accounts or account closures,
- unexplained changes in the risk profile of an account from low risk or capital preservation to high risk,
- sudden reluctance to discuss financial matters,
- being accompanied to meetings by new or unknown caregivers, friends or family members, or having difficulty communicating directly with the client without the interaction of others,
- sudden or unusual requests to change ownership of assets (for example, requesting that investments be transferred to a joint account held by family members, friends or caregivers),
- sudden or unexplained changes to legal or financial documents, such as POAs and wills, or account beneficiaries,
- an attorney under a POA providing instructions that seem inconsistent with the client's pattern of instructions to the firm,
- unusual anxiety when meeting or speaking to a firm employee (in-person or over the phone),
- unusual difficulty with, or lack of response to, communications or meeting requests,
- limited knowledge about their financial investments or circumstances when the client would have been customarily well informed in this area,
- increasing isolation from family or friends, or
- signs of physical neglect or abuse.

### ***Mental capacity***

Registered individuals can be in a unique position to notice the first warning signs of a decline in a client's mental capacity. These signs may arise subtly and over time. Examples of warning signs include:

- memory loss, such as forgetting previously given instructions or repeating questions,
- increased difficulty completing forms or understanding disclosure documents,
- increased difficulty understanding important aspects of investment accounts,
- confusion or unfamiliarity with previously understood basic financial terms and concepts,
- reduced ability to solve everyday math problems,
- exhibiting unfamiliarity with surroundings or social settings or missing appointments,
- difficulty communicating,

- changes in personality, or
- increased passivity, anxiety, aggression or other changes in mood, or an uncharacteristically unkempt appearance.

### ***Vulnerable client***

Vulnerable clients are those clients that may be at risk of being financially exploited because of an illness, impairment, disability or aging process limitation. Registered firms and individuals should recognize that not all older clients are vulnerable or unable to protect their own interests. Vulnerability can affect a client of any age, take many forms, and can be temporary, sporadic or permanent in nature. It is important to recognize vulnerabilities in clients because vulnerable clients may be more susceptible to financial exploitation.

## ***2. Trusted contact person***

### ***Purpose of the trusted contact person***

Paragraph 13.2(2)(e) requires registrants to take reasonable steps to obtain the name and contact information for a trusted contact person or “TCP” with whom they may communicate in specific circumstances in accordance with the client’s written consent. This requirement only applies with respect to clients who are individuals.

A TCP is intended to be a resource for a registrant to assist in protecting a client’s financial interests or assets when responding to possible circumstances of financial exploitation or concerns about declining mental capacity. A client may name more than one TCP on their account. The registrant may rely on confirmation from the client that the TCP is the age of majority or older in the individual’s jurisdiction of residence. A TCP does not replace or assume the role of a client-designated attorney under a POA. Nor does a TCP have the authority to transact on the client’s account or to make any other decision on behalf of the client by virtue of being named a TCP. A client-designated attorney under a POA can also be named as a TCP, but clients should be encouraged to select a different individual, who is not involved in making financial decisions with respect to the client’s account. A TCP should not be the client’s dealing representative or advising representative.

### ***Obtaining trusted contact person information and consent***

There is no prescribed form for obtaining TCP information. Registrants may wish to develop a separate form or incorporate the information into an existing form such as an account application. The form might include:

- an overview of the circumstances under which the registrant may contact the TCP,
- space to document information about the TCP, including the TCP’s name, mailing address, telephone number, email address and nature of the relationship to the client,
- a signature box to document a client’s consent to contact the TCP,
- a statement that confirms a client’s right to withdraw consent to contact the TCP, and
- a description of how to change a TCP.

Understanding the nature of the relationship between the client and the TCP may provide insight into the support network that the client has so that the registrant can assess whether it is appropriate to contact the TCP. Also, demonstrating that the registrant has knowledge of the relationship between the client and the TCP may alleviate concerns the TCP may have about speaking to the registrant about the client.

Registrants are not prevented from opening and maintaining a client account if the client refuses or fails to identify a TCP; however, they must still take reasonable steps to obtain the information. Examples of reasonable steps include explaining to the client the purpose of a TCP, providing the client with the disclosure required by paragraph 14.2(2)(1.1), asking the client to provide the name and contact information of a TCP, and obtaining the client's written consent to allow the registrant to contact the TCP in the circumstances set out in paragraph 13.2(2)(e). If a client refuses to provide the name and contact information for a TCP, the registrant may make further inquiries about the reasons for the refusal. Registrants are reminded that they are required to maintain records which demonstrate compliance with section 13.2 [*know your client*], document correspondence with clients, and document compliance and supervision actions taken under paragraphs 11.5(2)(l), (n) and (o).

### ***Contacting the trusted contact person and other parties***

When concerns about financial exploitation or decline in mental capacity arise, registrants should speak with the client about concerns they have with the client's account or wellbeing before contacting others, including the TCP.

Although there is no requirement to notify a TCP that they have been named by a client, registrants should encourage their clients to notify a TCP that they have been named and explain that the TCP will only be contacted in the circumstances set out in paragraph 13.2(2)(e).

If consent has been obtained, a registrant might contact a TCP if they notice signs of financial exploitation or if the client exhibits signs of diminished mental capacity which they believe may affect the client's ability to make financial decisions. An overview of signs of financial exploitation and diminished mental capacity are discussed in section 1 of this appendix. If the TCP is suspected of being involved in the financial exploitation of the client, the TCP should not be contacted and consideration should be given as to whether there are other more appropriate resources from which to seek assistance. A registrant might also contact the TCP to confirm the client's contact information if the registrant is unsuccessful in contacting the client after repeated attempts and where failure to contact the client would be unusual. A registrant may also ask the TCP to confirm the name and contact information of a legal guardian, executor, trustee or any other personal or legal representative such as an attorney under a POA.

When contacting a TCP, registrants should be mindful of privacy obligations under relevant privacy legislation and client agreements relating to the collection, use and disclosure of personal information.

Notwithstanding that the client has named a TCP, a registrant may also contact an attorney under a POA, government organizations, departments or individuals including police, or the public guardian and trustee with which they might otherwise consult in instances where the registrant suspects financial exploitation or has concerns with diminished mental capacity.

### ***Policies and procedures***

We expect registered firms to have written policies and procedures that address:

- how to collect and document TCP information and keep this information up-to-date,

- how to obtain the written consent of the client to contact the TCP, and document any restrictions on contacting the TCP and what type of information can be shared, and
- how to document discussions with a client's TCP.

### ***3. Temporary Holds***

#### ***General principles***

Registered firms and individuals can be in a unique position to notice signs of financial exploitation, vulnerability and declining mental capacity in clients because of the interactions they have with them, and the knowledge they acquire through the client relationship. Yet, many firms and individuals express concerns about acting to protect their clients, particularly by placing temporary holds, fearing regulatory repercussion. The intent of section 13.19 is to clarify that if registered firms have a reasonable belief that their vulnerable clients are being financially exploited or that their clients lack mental capacity, there is nothing in Canadian securities legislation that prevents registered firms and individuals from placing a temporary hold that they are otherwise legally entitled to place. Section 13.19 also prescribes requirements on how temporary holds in these circumstances must be placed. We acknowledge that there may be other circumstances under which a registered firm and its registered individuals may want to place a hold on an account. Section 13.19 and this guidance do not address these circumstances.

When placing temporary holds in accordance with section 13.19, registered firms and their registered individuals must act in a manner that is consistent with their obligation to deal fairly, honestly and in good faith with their clients. Registered firms and their registered individuals must not use a temporary hold for inappropriate reasons, for example, to delay a disbursement for fear of losing a client.

We do not expect registered firms and their registered individuals to be the final arbiter in matters of vulnerability, financial exploitation or mental capacity, but rather, believe that they may want to place temporary holds in these circumstances so that they can take steps to protect their clients.

We note that before a temporary hold is placed, the registered firm itself must reasonably believe that either a vulnerable client is being financially exploited or a client who has given the firm an instruction does not have the mental capacity to make financial decisions. We expect that decisions to place temporary holds be made by the CCO or authorized and qualified supervisory, compliance or legal staff.

A temporary hold contemplated under section 13.19 is not intended as a hold on the entire client account, but rather as a temporary hold over a specific purchase or sale of a security or withdrawal or transfer of cash or securities from a client's account. Transactions unrelated to the financial exploitation or lack of mental capacity should not be subject to the temporary hold. Each purchase or sale of a security or withdrawal or transfer of cash or securities should be reviewed separately. If the transaction, withdrawal or transfer involves the entire assets in the account, it may be reasonable to place a temporary hold on the entire account but continue to permit legitimate disbursements, such as for the payment of regular expenses.

A temporary hold contemplated under section 13.19 is not intended to be available where a registered firm or its registered individuals have decided not to accept a client order or instruction that does not, in their view, meet the criteria for a suitability determination. In this circumstance, the registered firm and registered individuals must comply with the requirements set out in subsection 13.3(2.1).

A client may provide an instruction to take an action which would not, in the registered firm's or registered individual's view, meet the criteria for suitability determination and which may otherwise be considered a poor financial decision, but these facts alone do not necessarily mean that the client is being financially exploited or lacks mental capacity.

### ***Conditions for temporary hold***

Section 13.19 contains the steps that registered firms must take if they place a temporary hold. These steps, when taken in good faith, are consistent with the obligation to deal fairly, honestly and in good faith with the client.

We expect registered firms to have written policies and procedures that:

- set out detailed warning signs of financial exploitation or lack of mental capacity;
- clearly delineate firm and individual responsibilities for addressing concerns of financial exploitation and lack of mental capacity, such as:
  - who at the firm is authorized to place and terminate temporary holds, for example, the CCO or authorized and qualified supervisory, compliance or legal staff;
  - who at the firm is responsible for supervising client accounts when a temporary hold is in place;
- set out the steps to take once a concern regarding financial exploitation or lack of mental capacity has been identified, such as:
  - escalating the concern;
  - proceeding or not proceeding with the instructions;
- establish lines of communication within the firm to ensure proper reporting; and
- outline when suspected abuse of a POA should be escalated to the appropriate external authorities, for example the public guardian and trustee or local law enforcement pursuant to section 331 of the *Criminal Code*.

Having written policies and procedures will show that firms have a system in place to address concerns that may result in a temporary hold. Additionally, it may assist in demonstrating that the registered firm or registered individual were acting fairly, honestly and in good faith in placing the temporary hold in accordance with their policies and procedures and the requirements under section 13.19.

Under paragraph 13.19(3)(a), when documenting the facts that caused the registered firm and its registered individuals to place and continue the temporary hold, reference should be made to the signs of financial exploitation or declining mental capacity that were observed. As the signs of financial exploitation and declining mental capacity often appear over a period of time, it is important to document signs and interactions with the client, the client's representatives, family or other individuals which led to the temporary hold.

Under paragraph 13.19(3)(b), the registered firm must, as soon as possible, provide notice of the temporary hold to the client. While firms often opt to send written notice, there may be some circumstances where they may also want to attempt to contact the client verbally. If a client is being financially exploited, the person perpetrating the exploitation may be withholding the client's mail.

Additionally, if a client is experiencing a decline in mental capacity, they may not be reviewing their mail on a regular basis.

While there is no requirement that firms contact a TCP prior to or when a temporary hold is placed, they may wish to contact a TCP at this point if they have not already done so. The firm may want to contact the TCP for a number of reasons as outlined in the guidance in section 2 of this appendix. However, before contacting the TCP, they should assess whether there is a risk that the TCP is perpetrating the exploitation. If the firm suspects that the TCP is involved in the financial exploitation, a notification to the TCP may have detrimental effects on the client.

Firms should also assess their contractual and statutory privacy obligations before contacting the TCP, other individuals or organizations with the intent of sharing or obtaining personal information regarding a client.

Under paragraph 13.19(3)(c), once a registered firm or a registered individual places a temporary hold, the firm must, as soon as possible, further review the facts that caused them to place the temporary hold. The review may prompt the registered firm or registered individual to review account activity or contact other parties who could provide assistance to the client, such as an attorney under a POA, a TCP, or if necessary, outside organizations such as the police or public guardian and trustee (in accordance with privacy laws and other applicable legislation). Before contacting another party, the firm should assess whether there may be a risk that the other party is financially exploiting the vulnerable client.

Paragraph 13.19(3)(d) requires the firm to notify the client of its decision to continue or terminate the temporary hold every 30 days. If the firm decides to continue the temporary hold, it must also provide the client with the reasons for its decision. Firms should be as transparent as possible with their clients about the reasons for placing the temporary hold, and be mindful of their obligation to deal fairly, honestly and in good faith with their clients. We expect that, while the temporary hold is in place, the registered firm is continuing its review of the facts that led to the hold. This may entail following up with relevant third parties, such as the police or a public guardian and trustee, who may be conducting their own review.

If the registered firm no longer has a reasonable belief that financial exploitation of a vulnerable client has occurred, is occurring, has been attempted or will be attempted or no longer has a reasonable belief that their client does not have the mental capacity to make financial decisions, the temporary hold must end. If ending the temporary hold results in an investment action, a suitability determination will be required. A firm may also decide to end the temporary hold for other reasons, such as if it decides to accept the client instructions with respect to the transaction, withdrawal or transfer, or alternatively, decides not to accept the client's instructions..

6. These changes become effective on •.

