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CIRCULAR
April 3, 2008

REQUEST FOR COMMENTS

UPDATING OF RULE SEVEN OF THE BOURSE – OPERATIONS OF APPROVED PARTICIPANTS

ABROGATION OF POLICIES C-2, C-4, C-10, C-11, C-12, C-13 AND C-15

Summary

The Special Committee – Regulatory Division of Bourse de Montréal Inc. (the Bourse) has approved the updating of Rule Seven as well as the abrogation of Policies C-2, C-4, C-10, C-11, C-12, C-13 and C-15 of the Bourse. The purpose of this abrogation is to reflect the fact that the Bourse is no longer involved in member regulation activities for what regards regulatory capital and sales compliance matters.

Process for Changes to the Rules

Bourse de Montréal Inc. is recognized as a self-regulatory organization (SRO) by the Autorité des marchés financiers (the Autorité). In accordance with this recognition, the Bourse carries on activities as an exchange and as a SRO in Québec. In its SRO capacity, the Bourse assumes market regulation and supervision responsibilities of its approved participants. The responsibility for regulating the market and the approved participants of the Bourse comes under the Regulatory Division of the Bourse (the Division). The Division carries on its activities as a distinct business unit separate from the other activities of the Bourse.

Circular no.: 051-2008

The Division is under the authority of a Special Committee appointed by the Board of Directors of the Bourse. The Board of Directors of the Bourse has delegated to the Special Committee – Regulatory Division its powers to approve or amend some aspects of the Rules and Policies of the Bourse governing approved participants, among which, the Rules and Policies relating to admission as approved participant, approval of persons, disciplinary matters, management of client accounts and operations. These changes are submitted to the Autorité for approval.

Comments on the proposed updating of Rule Seven and on the abrogation of Policies C-2, C-4, C-10, C-11, C-12, C-13 and C-15 of the Bourse must be submitted within 30 days following the date of publication of the present notice in the bulletin of the Autorité. Please submit your comments to:

*Ms. Joëlle Saint-Arnault
Vice-President, Legal Affairs and Secretary
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Quebec H4Z 1A9
E-mail: legal@m-x.ca*

A copy of these comments shall also be forwarded to the Autorité to:

*Ms. Anne-Marie Beaudoin
Director – Secretariat of L'Autorité
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
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Appendices

For your information, you will find in appendices an analysis document of the proposed rule amendments as well as the proposed regulatory text. The implementation date of the proposed amendments will be determined, if applicable, with the other Canadian self-regulatory organizations following approval by the "Autorité des marchés financiers".



UPDATING OF RULE SEVEN OF THE BOURSE – OPERATIONS OF APPROVED PARTICIPANTS

ABROGATION OF THE FOLLOWING POLICIES OF THE BOURSE :

- C-2 MINIMUM STANDARDS FOR
RETAIL ACCOUNTS
SUPERVISION
- C-4 ESTABLISHING AND
MAINTAINING ADEQUATE
INTERNAL CONTROLS
- C-10 INTERNAL CONTROL POLICY –
PRICING OF SECURITIES
- C-11 INTERNAL CONTROL POLICY
ON DERIVATIVE RISK
MANAGEMENT
- C-12 MINIMUM REQUIREMENTS FOR
SUITABILITY RELIEF
CONCERNING TRADES NOT
RECOMMENDED BY AN
APPROVED PARTICIPANT
- C-13 RESPONSIBILITIES OF THE CHIEF
COMPLIANCE OFFICER AND
THE ULTIMATE DESIGNATED
PERSON
- C-15 ELECTRONIC DELIVERY OF
DOCUMENTS

I SUMMARY

Following the termination of member regulation activities by Bourse de Montréal Inc. (the Bourse) in reason of the transfer of these activities to the Investment Dealers Association of Canada (IDA), the Bourse wishes to update Rule Seven of its Rules. The purpose of this actualization is to abrogate numerous articles of this Rule that have become obsolete as the Bourse is no longer carrying on members regulation activities. Furthermore, this actualization of Rule Seven has been made by taking in consideration two

elements that are considered important for the Bourse :

- 1° notwithstanding the fact that it no longer carries on member regulation activities, the Bourse is of the opinion that it must keep in its regulations some fundamental requirements that must be complied with by all approved participants for what regards their operations;
- 2° the regulations of the Bourse must, as much as possible, reflect its main vocation for what regards regulatory matters which consists to ensure that approved participants and their approved persons who trade derivative instruments listed on the Bourse act not only in compliance with the trading rules of the Bourse (Rule Six of the Bourse), but also in compliance with the operational requirements that the Bourse deems necessary to impose upon them in order to ensure market integrity.

Therefore, many articles of Rule Seven are not abrogated but are amended in order to allow the Bourse to maintain in its regulations some requirements that are deemed to be important while at the same time withdrawing from these regulations detailed guidelines or requirements that had to be complied with by approved participants. For example, the Bourse wishes to maintain in its regulations a requirement that approved participants must provide to the Bourse a copy of their most recent financial year-end audited regulatory report if requested by the Bourse, but withdraws from its regulations all the detailed guidelines that had to be complied with by approved participants and their external auditors when preparing this audited report.

Finally, the Bourse proposes to abrogate various Policies of Section C that are found in the Rules and Policies Manual of the Bourse. The abrogation of these Policies is also justified by the fact that they became obsolete following the termination by the Bourse of its member regulation activities.

II ANALYSIS

A) What is meant by “Member Regulation”?

For the purpose of this analysis and of the regulatory amendments and abrogations that are discussed therein, the term “member regulation” includes two main aspects :

1° **Financial compliance** which entails the regular examination by a self-regulatory organization (SRO) of securities brokers operations to ensure that they have a capital that is sufficient to carry on their activities. If a broker is unable to comply with the requirements related to minimum regulatory capital, the SRO that is doing the examination may require such broker to take necessary measures to correct the situation or, if circumstances warrant such an action, order that activities related to securities brokerage be suspended or terminated, in whole or in part;

2° **Sales compliance** which entails periodic examination by a SRO of securities brokers operations to ensure that they have in place efficient procedures to supervise the handling of clients’ accounts. Brokers are required to have a good knowledge of the investment needs of all their clients and their tolerance to risks and to ensure that advice given to and transactions made for clients’ accounts by their registered personnel are in compliance with these clients’ instructions and objectives and are adequate for what regards the personal and financial situation of such clients.

Member regulation does not include the surveillance of trading activities on exchange markets. This surveillance is made either by the exchanges themselves or by a SRO to which the exchange entrust this responsibility.

Currently, the member regulation and exchange market regulation responsibilities in Canada are shared as follows :

- member regulation in connection with financial compliance and sales

compliance : exclusive responsibility of the IDA;

- regulation and surveillance of equity exchange markets : exclusive responsibility of Regulation Services Inc.; and
- regulation and surveillance of derivative instruments exchange market (options and futures contracts) : exclusive responsibility of Bourse de Montréal Inc.

Each of the three above-mentioned organizations is recognized as a SRO by one or many provincial securities regulator. It is that status that allows each of these organizations to exercise its examination powers in the activities sector falling under its jurisdiction.

B) The Context

Until the end of 2004, two Canadian SROs were carrying on member regulation activities, the Bourse, who had under its examination jurisdiction slightly more than 20 Canadian securities brokers, and the IDA, who had approximately 175 Canadian securities brokers under its jurisdiction. It must also be noted that in addition to financial compliance and sales compliance matters, the activities of the Bourse related to member regulation also included the responsibility to approve all registered persons employed by the securities brokers that were under the jurisdiction of the Bourse.

During the 2004 summer, the Bourse took the decision, for what regards regulatory matters, to concentrate mainly on the regulation and surveillance of trading activities on its derivative instruments market and to withdraw from the member regulation sector. This decision was mainly justified by the fact that in reason of its specialization in the financial derivative instruments market, the member regulation activities carried on by the Bourse were no longer significantly related with the specialization of the Bourse. In fact, most of the securities brokers that were still under the examination jurisdiction of the Bourse at that time had no trading activities on the derivative instruments market. The Bourse was therefore in a situation where it had to dedicate significantly important resources for the

supervision and examination of securities brokers that did not have any activity on its market and for the approval of persons who, for the most part, were not involved in the trading of financial derivative instruments.

Discussions were therefore initiated with the IDA in order to transfer to it all member regulation activities of the Bourse as well as the responsibilities related to the approval of persons. Following these discussions and the drafting of an agreement between the parties, the proposed transfer was submitted to the Autorité des marchés financiers (AMF) in December 2004 for approval. This approval was granted by the AMF at the end of December 2004¹ and the transfer of all the concerned activities and responsibilities took place on January 1, 2005.

C) Impact of the Transfer of Responsibilities

The transfer of member regulation activities had only a minimum impact for the approved participants of the Bourse who transferred from the examination jurisdiction of the Bourse to the jurisdiction of the IDA. In fact, most of them were already members of the IDA. For those few that were not IDA members, the IDA arranged to simplify as much as possible the membership approval process.

Financially speaking, for the securities brokers that were under the jurisdiction of the Bourse while also being IDA members, the transfer allowed them to reduce their regulatory costs. The reason is that these brokers had to pay not only regulatory fees to the Bourse in its capacity as examination jurisdiction, but they also had to pay assessments to the IDA as members of that SRO, and this, notwithstanding the fact that it was not the IDA that was executing the financial compliance and sales compliance examinations. For these securities brokers, the transfer of member regulation activities from the Bourse to the IDA translated into real savings. For what regards the limited number

of securities brokers that were not members of the IDA and that became members when the transfer occurred, this transfer did not have a significant impact on the regulatory costs of these securities brokers, the regulatory fees they were paying to the Bourse being replaced by fees to be paid to the IDA. The Bourse and the IDA then having fees structures that were relatively similar, the financial impact for these securities brokers was not very significant.

From a regulatory standpoint, it can be considered that for the securities brokers that were subjected to this transfer of jurisdiction, there was no impact. Over the years, the Bourse and the IDA had always worked in very close collaboration in order to ensure that their respective regulations, for what regards rules related to financial compliance and sales compliance (including the rules relating to proficiency and approval requirements applicable to approved persons), be identical. It is to be noted that for what regards rules related to financial compliance, the Bourse and the IDA were both sponsoring organizations of the Canadian Investor Protection Fund (CIPF) and as such, the CIPF was making sure that the regulations of each organization were identical. There was therefore no regulatory arbitrage possible that could have resulted in a securities broker under the examination jurisdiction of the Bourse taking advantage of regulations of the Bourse less stringent than those of the IDA or vice-versa. Therefore, the securities brokers subjected to the transfer did not have to deal with or to adapt to a different regulatory regime.

However, for the Bourse, the regulatory impact of such a transfer is important. The Bourse no longer carrying on member regulation activities, a significant part of its regulations became useless following such transfer since the enforcement of these rules as well as the examination of compliance with them were now the exclusive responsibility of the IDA for what regards Canadian approved participants of the Bourse.

The Bourse has therefore initiated a revision of all its Rules and Policies in order to withdraw from these Rules and Policies all the provisions whose application is no longer the

¹ See Decision no 2004-PDG-0223 published in the Autorité des marchés financiers January 7, 2005 weekly Bulletin (vol. 2, no 1)

responsibility of the Bourse. A first part of this revision was submitted to the AMF for approval in the 2007 Spring.².

This revision consists not only in withdrawing from the regulations the provisions that are no longer relevant, but also in amending the Rules that are maintained in order that they be as well adapted as possible to the vocation and operations of the Bourse and of its approved participants.

The following analysis focuses mainly on the material additions, deletions and amendments that are made to Rule Seven of the Bourse. Housekeeping amendments are not discussed in detail unless the context requires that a detailed explanation be given.

D) Abrogated Articles

The Bourse proposes to completely abrogate the following articles in reason of the fact that since it is no longer carrying on member regulation activities for what regards the enforcement of these articles with Canadian approved participants, these having to comply with the corresponding regulatory requirements of the IDA. For what regards the foreign approved participants, these Rules were not applicable to them since upon their approval as foreign approved participants, they are exempted from all the Rules relating to sales and regulatory capital compliance.

Section 7001 – 7075 – Financial Conditions – General

- Article 7003 – Disclosure to Customers of Approved Participants' Financial Condition
- Article 7004 – Publication of a Consolidated Statement of Financial Condition
- Article 7006 – Capital Requirements
- Article 7009 – Subordinated Loans
- Article 7010 – Early Warning System

Section 7076 – 7150 – Insurance

- Article 7076 – Insurance
- Article 7077 – Reporting of Insurance Claims

Section 7151 – 7159 – Financial reports

- Article 7154 – Interim Questionnaires
- Article 7155 – Monthly Financial Reports
- Article 7156 – Working Papers

Section 7160 – 7170 – Audit Requirements

- Article 7160 – Audits
- Article 7161 – Appointment of Approved Participants' Auditors
- Article 7162 – Resignation of Approved Participants' Auditors
- Article 7163 – Auditor's Reports
- Article 7164 – Audit Deadline
- Article 7165 – Audit Guidelines

Section 7251 – 7300 – Registration of Securities

- Article 7251 – Registration of Securities
- Article 7252 – Redemption Agent

Section 7351 – 7400 – Offices and employees

- Article 7352 – Branch Offices
- Article 7355 – Use of Offices by Clients and other Non-Employees Prohibited

Section 7401 – 7449 – Registered Representatives and Investment Representatives

(Note : It is proposed to change the title of this Section for "Approved Persons" – See Section F below in which are the explanations relating to the proposed amendments to articles of this Section that are not abrogated)

- Article 7401 – Approval
- Article 7402 – Classes of Registration
- Article 7410 – Fixed Duties
- Article 7411 – Outside Remuneration Prohibited
- Article 7412 – Arrangements with clients

² See the request for comments circulars issued by the Bourse on April 23 and 24, 2007 (Circulars nos. 058-2007 to 061-2007 inclusively)

- Article 7417 – Mutual Fund Units Sales Incentives

Section 7450 – 7475 – Conduct of Accounts

- Article 7451 – Disclosure of Conflicts of Interests or Contrary Views
- Article 7455 – Confirmation and Statement of Account to Client
- Article 7457 – Transactions Prohibited
- Article 7458 – Service Fees
- Article 7459 – Margin Agreement
- Article 7460 – Clients’ Indebtedness – Approved Participants
- Article 7461 – Guarantees of Margin Accounts
- Article 7461A – Hedge Agreement
- Article 7462 – Account Transfers
- Article 7464 – Discretionary Cash Settlement Rule
- Article 7465 – R.R.S.P.s Administered by Approved Participants and Other Similar Plans
- Article 7468 – Forwarding Documents Concerning Securities Belonging to Non-Registered Clients
- Article 7469 – Cash Securities Loan Transactions
- Article 7470 – Introducing/Carrying Broker Agreements

Section 7476 – 7500 – Specific Provisions on Discretionary Accounts

- Article 7476 – Definitions
- Article 7477 – Obligation to Comply
- Article 7478 – Written Authorization
- Article 7479 – Designation of a Supervisory Authority
- Article 7480 – Designation as a Portfolio Manager or Associate Portfolio Manager
- Article 7481 – Portfolio Management Committee
- Article 7482 – Quarterly Review of Managed Accounts
- Article 7483 – Investment Policies
- Article 7484 – Fees Agreement
- Article 7485 – Separate and Distinct Supervision for each Managed Account
- Article 7486 – Ethics
- Article 7487 – The Approved Participant’s Mandate

Section 7501 – 7550 – Procedures Concerning the Custody, the Segregation and the Safekeeping of Clients’ Securities and Free Credits

- Article 7501 – Definitions
- Article 7502 – Clients Free Credit Balances
- Article 7503 – General Concept
- Article 7504 – Acceptable Internal Locations
- Article 7505 – Restrictions on the Use of Clients’ Securities
- Article 7506 – Restrictions on Delivery of Customers’ Securities
- Article 7507 – Written Notice to Clients Required
- Article 7508 – Determination of the Number of Securities to be Segregated
- Article 7509 – Segregation on a Timely Basis and Corrections to be Made
- Article 7510 – Securities Held in Safekeeping
- Article 7511 – Acceptable Securities Locations

E) Abrogated Policies

The Bourse also proposes to abrogate entirely the following Policies in reason of the fact that no longer carrying on member regulation activities, it does not any responsibility regarding the enforcement of these Policies with Canadian approved participants, these one having to comply with the corresponding provisions contained in the IDA Policies.

- Policy C-2 Minimum Standards for Retail Accounts Supervision
- Policy C-4 Establishing and Maintaining Adequate Internal Controls
- Policy C-10 Internal Control Policy – Pricing of Securities
- Policy C-11 Internal Control Policy on Derivative Risk Management
- Policy C-12 Minimum Requirements for Suitability Relief Concerning Trades Not Recommended by an Approved Participant

- Policy C-13 Responsibilities of the Chief Compliance Officer and the Ultimate Designated Person
- Policy C-15 Electronic Delivery of Documents

F) Amended Articles

Section 7001 – 7075 – Financial Conditions - General

Article 7001 – Compliance with Legal Requirements

The title of this article as well as its wording have been amended in order to better reflect the fact that approved participants of the Bourse do business not only in Quebec, but also in many other provincial or territorial jurisdictions in Canada and in other foreign jurisdictions such as the United States and the United Kingdom. Approved participants can therefore be subjected not only to the Quebec Securities Act but also to various other applicable laws respecting securities and, in some jurisdictions, respecting futures contracts. Whichever the jurisdiction in which they carry on their activities, the Bourse requires from its approved participants that they comply with the laws that are applicable in such jurisdiction.

The Bourse also proposes to replace the reference to the Vice-President of the Regulatory Division by a reference to the Bourse for what regards the obligation to provide information.

Article 7002 – Form of Reports

In its current format, article 7002 is mainly focusing on reports of an accounting type, such as balance sheets and related financial statements and on financial examinations relating to the preparation of these reports. The Bourse no longer being involved in the surveillance of the approved participants' financial situation, the wording of this article has lost much of its relevance.

However, since various other types of reports related to the trading activities of approved participants on the Bourse may still be requested by the Bourse (for example,

derivative instruments position reports, reports on various types of transactions, etc.), it is proposed to keep this article but to amend it in such a way that its scope be generic. These amendments will allow to adapt the provisions of this article to the actual role of the Bourse for what regards its regulatory oversight of approved participants while at the same time maintaining the power of the Special Committee – Regulatory Division to prescribe the manner and the format according to which must be submitted any report that may be required from an approved participant and to determine the required criteria that must be complied with for any system that must be put in place to ensure the maintenance of books and records that must be used for the preparation of reports that are requested or to ensure the efficient conduct of approved participants' activities.

Article 7011 – Establishing and Maintaining Adequate Internal Controls

The Bourse considers that it must maintain in its regulations a general provision respecting the obligation for approved participants to establish and maintain adequate internal controls because such controls may contribute to ensure an orderly conduct of approved participants' trading activities on the Bourse's market and the efficiency of the functions designed to supervise these activities.

However, since the Bourse is proposing to abrogate entirely Policy C-4 (Establishing and Maintaining Adequate Internal Controls) to which this article was referring, it is therefore proposed to withdraw this reference from article 7011 and to replace it by a generic objective. Canadian approved participants shall therefore ensure compliance with this requirement based on the guidelines established by the IDA in its Policy No. 3 (*Internal Control Policy Statements*). For what regards foreign approved participants, the Bourse is expecting from them that they comply with the internal control requirements that are applicable in their home jurisdiction.

Section 7151 – 7159 – Financial Reports

Article 7151 – Financial Questionnaires and Reports

The Bourse no longer carrying on member regulation activities, approved participants are no longer required to provide the Bourse with audited regulatory financial reports at the end of their financial year end. However, the Bourse wishes to retain the possibility that such reports be provided if deemed necessary. Such a request could be made, for example, when the Bourse is informed that approved participant is having some financial or operational difficulties in order to better assess the situation.

It is therefore proposed to amend article 7151 by specifying therein that the obligation to submit a financial report will apply only if the Bourse requests such a report.

Article 7152 – Members of Other Recognized Exchanges or Regulatory or Self-Regulatory Organizations

The main purpose of the amendments proposed for this article is that the fact that the Bourse has many foreign approved participants be taken into account. Pursuant to the provisions of article 7151, the financial report that may be requested by the Bourse must be in the form prescribed by Policy C-3 of the Bourse (*Joint Regulatory Financial Questionnaire and Report - JRFQR*). This is the prescribed form for Canadian approved participants.

However, foreign approved participants are not required to use this report form. In fact, they exempted to do so upon their admittance as foreign approved participant in reason of the fact that the Bourse does not exercise any jurisdiction on regulatory capital matters. Such jurisdiction is exercised by a regulator (for example, the Financial Services Authority (FSA) in the United Kingdom), a self-regulatory organization (for example, the National Futures Association (NFA) in the United States) or, for some U.S approved participants, by an exchange (for example, the Chicago Board of Trade or the Chicago Mercantile Exchange) located in the home jurisdiction of such foreign approved participants. These foreign approved

participants are therefore subjected to the regulatory capital requirements of their home jurisdiction which can differ from the Canadian requirements and the audited regulatory financial reports that they must submit to their audit jurisdiction differ from the Canadian JRFQR.

The Bourse therefore proposes to amend the wording of article 7152 so that these report forms be acceptable in lieu of the form prescribed for Canadian approved participants. Of course, as it is the case for Canadian approved participants, these reports must be audited reports in order to obtain a certain comfort as to the accuracy of the information presented therein.

In addition, since the Bourse is not as familiar with the regulatory capital requirements that are applicable in these jurisdictions as it is with the Canadian requirements, it is proposed that when a financial report submitted to the Bourse is in a format that is different from the JRFQR, such report be accompanied by a written confirmation from the regulator, self-regulatory organization or exchange having jurisdiction that the foreign approved participant satisfies the applicable regulatory capital requirements.

Article 7157 – Statistical Information

From time to time, the Bourse may wish to obtain statistical information from its approved participants in order to carry on some analysis. These statistics may be requested from all approved participants or from a specific category such as, for example, statistics regarding transactions on the Bourse's futures market that would be requested only from those approved participants that are active on this market. The Bourse therefore considers that it is necessary to keep article 7157 in its Rules. However, it is proposed to make some amendments to this article.

The first amendment would consist in specifying that the obligation to provide such statistics applies only if the Bourse requests them. Article 7157 does not apply therefore to reports that must be submitted periodically such as, for example, the futures contracts reports that must be submitted twice a week

when the number of contracts held by an approved participant or by one of its clients exceeds a certain threshold.

The Bourse also proposes to withdraw from this article any reference to the Special Committee – Regulatory Division and to replace it by a reference to the Bourse. Finally, the Bourse proposes to withdraw from this article the provision that was specifying that any request for statistics must be authorized by the Special Committee.

The withdrawal of these two provisions is explained by the fact that the request for some statistics will generally be made in the course of the day to day operations of the Regulatory Division. The Special Committee is not directly involved in these day to day operations, its main role consisting in supervising the activities of the regulatory Division on a high-level basis rather than on a detailed basis. This role can be assimilated to the role of a Board of Directors.

Consequently, the Division staff being directly involved in the day to day operations, it will be in a better position than the Special Committee to evaluate the relevance and/or the necessity of asking for such statistics. The Bourse also considers that the fact of having to obtain the authorization of the Special Committee every time it wishes to obtain some kind of statistics constitutes a useless burden on the process to obtain such statistics. The Bourse therefore considers that it should not be necessary to obtain such an authorization.

Section 7401 – 7449 – Registered Representatives and Investment representatives

Before the transfer of its member regulation activities to the IDA at the beginning of 2005, the Bourse, in addition to these activities, was also carrying on activities related to the approval and the registration of various categories of persons employed by approved participants. These approval and registration activities included two main aspects :

1° for all the persons carrying on their activities in Quebec and whose functions or responsibilities were requiring to be

registered with the Autorité des marchés financiers (AMF), be it as registered representatives, investment representatives or for any other relevant registration category, the Bourse was registering these persons with the AMF pursuant to delegated powers from the AMF. These delegated powers were applicable to all Canadian approved participants carrying on activities in Quebec regardless of the fact that they were or not under the jurisdiction of the Bourse in respect of financial compliance and sales compliance; and

2° for employees of approved participants that were under its audit jurisdiction, the Bourse was also responsible for the approval of these persons for the various approval categories that are granted not pursuant to a securities law or regulation but pursuant to the Rules of the Bourse. Examples of such approval categories are those that are applicable to options contracts and to futures contracts such as registered representatives approved for these types of instruments or persons responsible for the supervision of trading activities in these types of instruments.

When it transferred its member regulation activities to the IDA, the Bourse renounced the delegated powers of the AMF. The Bourse also renounced the approval powers of physical persons that it was exercising for approved participants that were under its audit jurisdiction before the transfer of this jurisdiction to the IDA. Since January 1, 2005, the IDA exercises all these powers exclusively except for one category of approval retained by the Bourse, which is the approval of “SAM Authorized Persons”.

SAM Authorized Persons are persons who are employed by approved participants of the Bourse and to whom approved participants want the Bourse to grant them a direct access to the electronic trading system of the Bourse.

The Bourse no longer exercising powers delegated by the AMF nor approval powers pursuant its own Rules (except for SAM Authorized Persons), it could be considered at first glance that all the articles that are in

Section 7401 – 7449 are no longer relevant and that they should all be abrogated.

Rather than simply limiting itself to abrogate this whole Section of its Rules, the Bourse rather proposes to retain it, to abrogate some of its articles that are effectively no longer relevant for the reasons mentioned above and to retain some other articles which, in the opinion of the Bourse, are still relevant for what regards SAM Authorized Persons.

This approach will allow to further clarify some requirements that must be complied with by SAM Authorized Persons in the course of their activities. Currently, the only requirements that can be found in the Rules of the Bourse regarding SAM Authorized Persons are in paragraph A of article 6366 of the Rules. Some provisions that are in Section 7401 – 7449 of the Rules can technically be considered as being applicable to these persons. However, to eliminate any application and interpretation problem, the Bourse proposes to amend the wording of the articles that will be retained so that such wording adequately reflects the fact that these provisions are effectively applicable to SAM Authorized Persons.

First, since it no longer approves registered representatives nor investment representatives, the Bourse proposes to replace the current title of Section 7401 – 7449 by “Approved Persons”. The purpose of this term is to include SAM Authorized Persons. It has also been preferred over a more specific designation (e.g. : SAM Authorized Persons) because if the wording of this designation is changed for any reason in the future, it would then be necessary to amend the Rule for strictly housekeeping reasons. Furthermore, SAM Authorized Persons are currently the only persons approved by the Bourse for trading on its market. It is not impossible that in the future one or many other approval categories be created. The addition of such new categories would also require that regulatory amendments be made to incorporate them in the Rules of the Bourse. But in fact, any new approved person category would be subjected to the same requirements as those that will be found in Section 7401 – 7449.

For all these reasons, the Bourse prefers to use in its regulations a generic term (approved persons) that will include any approved person, whatever the exact designation.

Article 7403 – Application for Approval as an Approved Person

First, the Bourse proposes to add to article 7403 a provision similar to the one that exists in paragraph A of article 6366 of the Rules of the Bourse which provides that any person employed by an approved participant wishing to have access to the electronic trading system of the Bourse must obtain the prior approval of the Bourse. The addition of this provision to article 7403 will allow clarifying the fact that all the provisions of the articles of Section 7401 – 7449 that will remain in the Rules of the Bourse apply to the persons approved by the Bourse as SAM Authorized Persons.

Furthermore, in addition to some housekeeping amendments to the second paragraph of article 7403, the Bourse proposes to withdraw the words “or related company”. Related companies of approved participants that are not themselves approved participants are considered to be the clients of approved participants when they trade on the Bourse’s market. As such, they cannot have a direct access to the electronic trading system of the Bourse in a way other than through an order routing system provided by the approved participant and through which they execute their transactions on the market. The conditions that approved participants must comply with when they provide such an order routing system service to their clients are specified in paragraph B of article 6366 of the Rules of the Bourse. The persons employed by clients of approved participants, including those employed by their related companies, and designated by these clients to trade the Bourse’s products not being allowed to have a direct access to the electronic trading system of the Bourse, they are not required to be approved in any capacity by the Bourse.

Finally, the Bourse proposes to withdraw from article 7403 the exemption provision that was appearing at the end of the article. The purpose of that provision was to, when the Bourse was exercising complete approval

powers for persons, clarify the fact that a person who had already been approved by a self-regulatory organization that was the audit jurisdiction for the approved participant by whom this person was employed was not required to apply for such an approval by the Bourse. For example, if a person employed by an approved participant under the audit jurisdiction of the IDA was approved by the IDA as a Registered Option Representative for options contracts, this person was exempted to ask to the Bourse to be approved in that same category. This provision thus allowed to avoid any useless duplication of application by the person and by its employing firm.

This exemption is no longer relevant not only because the Bourse no longer exercises any responsibilities in connection with the approval of individuals as previously explained, but also because it is the only one that can approve SAM Authorized Persons.

Article 7407 – General Restrictions Applicable to Approved Persons

The Bourse proposes to further clarify article 7407 by adding therein a provision specifying that an approved person wishing to execute transactions for the account of persons other than his/her own employer or for the account of clients of his/her employer must obtain the prior written consent of the Bourse. The Bourse is of the opinion that this requirement to obtain its prior consent will allow the Bourse to have a better control and a better monitoring of any person carrying on or intending to carry on trading activities for persons other than his/her own employer or clients of such employer. An example of this type of situation is the case of “jitneys” who execute orders not only for the account of the approved participant by whom they are employed, but also for the account of other approved participants.

In the second paragraph of this article, in addition to some housekeeping amendments that will allow to adapt the wording to the “approved persons” concept, the Bourse proposes to withdraw the reference to a related company and this for the same reasons as those previously discussed, i.e. the Bourse does not approve any person employed by a

related company of an approved participant since such related company is considered to be, for the purpose of trading the derivative instruments listed on the Bourse, a client of the approved participant.

In addition, the Bourse wishes that the provisions of this paragraph apply not only in the case of a violation to the Rules of the Bourse, but also to the Policies and procedures of the Bourse. It is therefore proposed to add a specification to this effect.

Finally, the Bourse wishes to clarify the scope of the second paragraph. The end of the last sentence of the current wording of this paragraph reads as follows :

*“... shall be deemed to be an infraction by the approved participant who **employed** him.” (our underlining)*

A strict interpretation of this wording could result in the approved participant arguing that, if an infraction is identified after the termination of the approved person as an employee of the approved participant, this person being no longer an employee, the approved participant no longer has any responsibility in respect of the infraction committed by this person. Such an argument could, for example, be invoked in the case of an infraction that is found out shortly after the termination of the employee.

The Bourse therefore proposes to amend the above-mentioned wording so that it rather reads as follows :

*“... shall be deemed to be an infraction by the approved participant who **was employing this approved person at the time such act or omission occurred.**” (our underlining)*

The Bourse considers that this wording will allow to clarify the fact that even if the approved person involved in such act or omission is no longer employed by the approved participant when this act or omission are found out, the approved participant could still be held responsible of such act or omission.

Article 7408 – Joint Accounts

In addition to some housekeeping amendments allowing to adapt the wording to the “approved person” concept, the Bourse proposes to withdraw the reference to a related company and this, for the same reasons as those previously mentioned in the case of article 7407.

Article 7409 – Dealings with Other Firms by Approved Persons

The explanations of the proposed amendments are the same ones as those provided in the case of article 7408 above.

Article 7413 – Notice to the Bourse of Termination of Employment or of Lawsuits and Other Proceedings

In addition to withdrawing the reference to the related company concept, as proposed for other articles previously discussed and for the same reasons, it is proposed to replace the word “immediately” by “within the prescribed delays” for what regards the filing with the Bourse of an employment termination notice. As a matter of fact, the Rules of the Bourse, and more specifically paragraph A of article 6366 of the Rules of the Bourse, and the official list of fees of the Bourse specify that approved participants have a ten business days delay to submit such a notice to the Bourse. It is therefore more appropriate to refer to a prescribed delay rather than requiring that such notice be submitted immediately.

It is the same thing for what regards the second paragraph of this article which, pursuant to the current wording, imposes an obligation to provide immediately a report on any information relating to a lawsuit, an investigation or proceedings regarding an approved person. Here again, the Bourse considers that this obligation to immediately provide such a report is too strict for approved participants because they may need a minimum period of time to prepare such a report or to collect all the required information. The Bourse therefore does not have in its Rules any prescribed delay regarding the provision of such reports and does not consider it necessary to implement

such a delay. It is considered more appropriate that the Rules only specify that such report must be provided “as soon as possible”, leaving to the approved participants the care to determine at what time the required information should be provided. Upon receipt of such required information, the Bourse will then determine if the information was provided in a timely manner given the nature of the information provided. Since pursuant to the IDA requirements, as established in its Policy No. 8, Canadian approved participants must provide the required information within a delay of five business days, the Bourse will consider any information being provided within this delay as having been provided within a reasonable delay.

Finally, the Bourse proposes to withdraw the exemption provision that was found at the end of article 7413. The reason for withdrawing this provision is that notwithstanding the fact the persons approved by the Bourse provide the required information to another regulatory or self-regulatory organization through an electronic system such as, for example, the IDA COMSET system, the Bourse does not currently have access to such a system. Since it is in the interest of the Bourse to be informed of any particular situation that may affect the status of the persons that it approves, the Bourse considers that it is essential to ensure that approved participants provide all the necessary information relating to persons approved by the Bourse. Maybe it will be possible in the future to implement such exemptions if access to the existing systems can be obtained or if information sharing agreements with self-regulatory organizations allow for the required information to be systematically transmitted by these organizations when it is communicated to them.

Article 7414 – Transfers of Approved Persons

In the same manner as it is important for the Bourse to be informed of the employment termination of the persons that it approves and of lawsuits or proceedings against these persons, it is also important for the Bourse to be informed of the fact that these persons are employed by an approved participant that is not the one for whom they had been approved

in order to have records that are continuously up to date.

It is therefore proposed to maintain article 7414 of Rule Seven regarding the transfer of persons approved by the Bourse while at the same time making the following amendments :

- withdrawal of the reference to the “related company” concept (already explained previously – see article 7407 above);
- replacement of the term “registered representative or investment representative” by “person approved by the Bourse”; and
- withdrawal of the exemption provision (already explained previously – see article 7413 above).

In addition, the Bourse also proposes to incorporate in article 7414 some precisions in order to further clarify the interpretation and application of this article. First, it is proposed to specify the Bourse will not approve an application for consent to a transfer if it has not, prior to that application, received the previous employer termination notice required by article 7413. It is also proposed to specify that if a delay of more than six months has elapsed between the date of the termination of the approved person employment with an approved participant and the date on which this approved person started his/her new employment with the approved participant for whom the transfer application is made, the Bourse will consider that this constitutes a new application and will therefore treat the application not as a transfer application, but as a new application for approval made pursuant to article 7403 of Rule Seven. This specification is necessary because pursuant to article 7415 (see below), the approval of a person by the Bourse will be cancelled if this person does not carry on the activities for which this person was approved for a period of six months or more.

The purpose of these two additions to article 7414 is to formalize the practices of the Bourse for what regards the transfer of physical persons and the cancellation of approvals.

Article 7415 – Suspension or Revocation of Approval of a Person Approved by the Bourse

In addition to adapting the wording of this article to the fact that the Bourse approves only SAM Authorized Persons, who are designated as “approved persons” for the purposes of Rule Seven, it is proposed to make the following amendments to article 7415.

First, the first paragraph refers only to the “required qualifications”. The Bourse considers that this term is too limited because it may lead to believe that it encompasses only qualifications that are related to professional experience and proficiency. In fact, the Bourse may impose certain conditions to the persons it approves. For example, in the case of approved persons of foreign approved participants that are based in the United States, these persons are only authorized to trade the futures contracts of the Bourse that have been formally approved by the Commodity Futures Trading Commission. The Bourse therefore proposes that the wording of the first paragraph be amended so that it contains not only a reference to the qualifications required by the Bourse, but also to any other condition or requirement that the Bourse may consider appropriate to impose.

Also, the second paragraph covers only situations where there is a revocation of the approval. The Bourse considers that the provisions of this paragraph should apply not only in the case of an approval revocation, but also when such an approval is suspended and therefore proposes to amend the wording of this paragraph to that effect.

In addition, the current wording of this paragraph imposes upon approved participants the obligation to terminate the employment of the person without giving any other precision and prohibits the employment of this person by an approved participant in any capacity. The Bourse is of the opinion that this prohibition is too restrictive and that it should be outlined in a more precise manner. In fact, the most important thing for the Bourse when it suspends or revokes the approval of a person, is that this person may no longer carry on any activity related to his/her approved person status. If, on the other hand, for any

reason, an approved participant wishes to keep this person employed to carry on duties that are not related to the status of a person approved by the Bourse, the Bourse should not prohibit such a thing and should limit its prohibition to activities that are related to those of a person approved by the Bourse. It could also happen that the Bourse suspends or revokes the approval of a person who is also approved by other regulatory or self-regulatory organizations. A suspension or revocation by the Bourse of its approval of a person does not have as an effect to suspend or revoke the other approvals of this person, the Bourse having no jurisdiction for these other approvals. In such a case, the concerned person should certainly no longer carry on activities that are related to his/her status as a person approved by the Bourse, but if the other approvals of this person are maintained by the regulatory and self-regulatory organizations having jurisdiction, it is certainly not to the Bourse to impose to an approved participant such prohibitions that the concerned person may no longer carry on not only activities related to his/her status as a person approved by the Bourse but also any other activity.

The Bourse therefore proposes to amend the wording of the second paragraph of article 7415 so that it better describes the employment prohibition mentioned in this paragraph by specifying that such prohibition applies only to employment as a person approved by the Bourse.

Finally, the Bourse proposes to add a provision to article 7415 in order to specify that if, following the termination of employment with an approved participant, an approved person stops carrying on any activity as an approved person for a period of six months or more, this person's approval shall be automatically revoked.

Article 7416 – Approved Participant's Responsibility

The Bourse proposes to keep this article in its regulations and to make some amendments to specify that approved participants have the obligation to ensure that not only their persons who are approved by the Bourse, but also all their other persons approved by a regulatory or

self-regulatory organization comply with the regulatory requirements of the Bourse.

Section 7450 – 7475 – Conduct of Accounts

Article 7450 – Business Conduct

Article 7450 establishes general principles to be complied with by approved participants and by their approved persons. The Bourse considers that it is preferable to maintain this article in its regulations.

However, it is proposed to withdraw the last paragraph which refers to Policy C-2 of the Bourse. As mentioned at the beginning of this analysis, the Bourse no longer carrying sales compliance activities, it intends to abrogate this Policy which was setting minimum supervision standards for retail accounts.

Article 7452 – Diligence as to Accounts

Although it no longer carries on member regulation activities in connection with sales compliance matters, the Bourse considers that it should still retain in its regulations some general principles such as those that are found in subparagraphs a) to d) of paragraph 1) of article 7452. It is therefore proposed to maintain the principles that are set forth in these subparagraphs with some housekeeping amendments. However, since the Bourse intends to abrogate its Policy C-12 regarding the minimum requirements for suitability relief concerning trades not recommended by an approved participant, it is proposed to abrogate subparagraphs e) and f) of paragraph 1) of article 7452.

Also, although it no longer approves the persons who are responsible for compliance at approved participants neither the designated responsible persons for options contracts and futures contracts, the Bourse considers that it is important to maintain in its regulation a general principle stating that approved participants must designate responsible persons and, as may be needed, alternate responsible persons in order to ensure an adequate supervision and monitoring of trading in derivative instruments that are listed on the Bourse.

The Bourse therefore proposes to keep paragraph 2) of article 7452 but to amend it so that the provisions of this paragraph reflect the reality of the Bourse by withdrawing therefrom some points that are no longer relevant following the termination by the Bourse of its member regulation activities.

First, it is proposed that the role of the responsible person, as stated in the wording of this paragraph be clarified by specifying that this person is responsible for supervising and monitoring the trading activities of the approved participant in the derivative instruments listed on the Bourse.

Secondly, the Bourse proposes to withdraw from this paragraph the reference to Policy C-13 of the Bourse which deals with the responsibilities of the Chief Compliance Officer and of the Ultimate Designated Person since the Bourse intends to abrogate this Policy (see the list of Policies of the Bourse that will be abrogated in Section E of this analysis).

The Bourse also proposes to withdraw the reference to a branch or branch manager and this because the main purpose of the provisions of paragraph 2) of article 7452, as amended, is to ensure that approved participants will have in place persons that are responsible for the supervision and monitoring of trading activities in derivative instruments listed on the Bourse. The discretion as to the required number of responsible persons and alternate persons as well as to the location from where these persons will carry on their responsibilities will be left to approved participants. In addition, considering the electronic tools that are now available for most approved participants and that allow to supervise and monitor the trading activities carried on in a branch at a distance, the Bourse does not see the relevance of requiring that a responsible person be designated for each branch.

A very important point to mention is that the responsible persons to whom refers paragraph 2) of article 7452 do not have to be approved by the Bourse. The purpose of the proposed amendments is not to create a new approved person category but to require from approved

participants that they designate someone to ensure the supervision and surveillance of trading activities in derivative instruments and that they inform the Bourse about the identity of these persons so that the Bourse can communicate with these persons when a problem occurs or in the course of an analysis, an investigation or an examination. It is therefore proposed to add to paragraph 2) of article 7452 a provision specifying that the responsible person and the alternate persons do not have to be approved by the Bourse, but that approved participants must provide to the Bourse all the necessary information regarding the identity of these persons.

The implementation of these requirements should not cause problems for the approved participants of the Bourse because experience shows that it is a practice that is already in place.

Finally, it is proposed to abrogate paragraphs 3) to 7) of article 7452 since these are provisions that apply to the management of clients' accounts. The Bourse no longer carrying on regulatory activities related to sales compliance, these provisions are no longer relevant.

Article 7453 – Application as to Diligence of Accounts

The Bourse considers that paragraph 1) of article 7453 should be retained but with amendments to limit the scope of this paragraph only to accounts set up to trade derivative instruments. Effectively, it can frequently happen that the corporate statutes of a company or an institution prohibit the trading of derivative instruments or, if they do not prohibit it, impose restrictions such as, for example, limiting trading of derivative instruments to hedging transactions only.

It therefore appears important to the Bourse that it requires from its approved participant that they take all necessary measures to ensure that there exist no prohibitions or restrictions for what regards the capacity of a corporate or institutional account to trade derivative instruments and that the persons acting for the account of such corporation or institution are effectively authorized to do so.

The Bourse is also of the opinion that there is reason to retain paragraph 2) of article 7453. Here again, it must be ensured that approved participants adequately document their records when an account is opened in the name of a nominee.

Article 7454 – Designation of Accounts and Transactions of Employees of Approved Participants

The Bourse proposes to retain this article with only minor amendments.

For what regards paragraph 1) of this article, the determination of the real identity of the owner may prove to be an essential information for the purpose of an analysis, an investigation or an examination made by the Bourse. The Bourse therefore considers that it is necessary to retain this paragraph in order to ensure the availability of this information. The only amendment proposed consists into eliminating the requirement to retain the information at the principal office of the approved participant in Canada. The Bourse has some thirty foreign approved participants who do not have any place of business in Canada. In their case it could be impossible or uselessly complicated and expensive to maintain the required information in an office in Canada. What is important, is that the information be available and readily accessed to if needed.

In the case of paragraph 2), the Bourse also proposes to retain the provisions that are contained therein but here again by limiting their scope to accounts and transactions on derivative instruments. One of the main reasons why the Bourse wishes to retain these provisions in its regulations is that Bourse wants to ensure that the persons it approves (SAM Authorized Persons) do not open derivative trading accounts with an approved participant other than the one that employs them without their employer being informed and expressly agreeing with the opening of such an account. The opening by an approved person of an account with an approved participant that is not his/her employer presents some conflict of interest risks, this person possibly taking advantage of privileged

information to execute transactions to his/her benefit without his/her employer being in a position to be informed of such transactions. The Bourse therefore considers that it is necessary that the employer of the approved person be able to determine whether or not it agrees with the opening of such an account and, if it agrees, that it be kept informed on the activities of such account by way of the trade confirmations and statements of accounts issued by the approved participant with whom the approved person has opened an account.

Article 7456 – Conflict of Interest

The Bourse considers that the provisions of this article should be retained in its regulations by limiting its scope to transactions on derivative instruments listed on the Bourse. In addition to this amendment, article 7456 as it exists now is still relevant because it is expressing a general principle pursuant to which approved participants must ensure that they do not create any conflict between their own interests and those of their clients.

Article 7466 – Record of Complaints

The Bourse proposes to retain this article by making necessary amendments thereto to reflect the fact that the complaints that will be of interest to the Bourse will be those that are mainly related to the trading of derivative instruments on the Bourse's market.

Although the Bourse no longer carries on member regulation activities, it can still be called to handle some complaints from clients, approved persons, approved participants or other persons in connection with the trading of derivative instruments listed on the Bourse. These complaints may be about market quality (e.g.: complaints relating to the lack of liquidity of a derivative instrument or to the price of such instrument), on manipulation allegations or on matters related to non compliance with the trading procedures of the Bourse.

Although some complaints may be transmitted directly to the Bourse, it frequently happens that clients wishing to file a complaint will first do it with the approved participant they are dealing with. If this approved participant

settles the complaint to the client's satisfaction, the Bourse will generally not be required to intervene. However, it can be required to do so and to initiate an analysis and/or an investigation if the complainant is not satisfied with the handling of his/her complaint by the approved participant or if this one refers the case to the Bourse.

When such complaints are received by approved participants, they have an obligation to record them in a register set up for that purpose. They also have the obligation to maintain files in respect of these complaints, in which files must be accumulated and retained all documents relating to the treatment of these complaints.

All these records and files must be made available to the Bourse on request for consultation.

The Bourse also wishes to profit from the updating of article 7466 to incorporate therein records and files retention requirements that already exist for other types of documents. Thus, article 6377 of the Rules of the Bourse respecting the maintenance of order records, imposes a seven (7) years retention period. Also, National Instrument 21-101 respecting marketplace operations also imposes a seven (7) years retention period for most records created by marketplaces. The Bourse therefore proposes to apply to the complaints register and to the records related to these complaints a retention period identical to the one already prescribed for most other register and records generated by the approved participants' activities and operations.

The Bourse also proposes to add to article 7466 a new paragraph 3 in which will be specified the minimum information that should be found in a complaint register so that this register be as informative as possible. The information that should be entered into the register should be the following ones :

- i) the complainant's name;
- ii) the complaint date;
- iii) the name of the person who is the subject of the complaint;
- iv) the derivative instruments that are the subject of the complaint;

- v) the materials revised by the approved participant in the course of its investigation;
- vi) as the case may be, the names and titles of persons interviewed by the approved participant in the course of its investigation and the dates of such interviews; and
- vii) the date and the conclusions of the decisions rendered in connection with the complaint.

The addition of these provisions to article 7466 will allow to clarify what are the expectations of the Bourse for what regards the information that should be found in the complaint register that must be maintained by all approved participants of the Bourse.

Article 7467 – Keeping Records of orders

Pursuant to the requirements of National Instrument 23-101 (Trading Rules), Canadian securities brokers are required to maintain registers and records in which must be found numerous information allowing to have a complete audit trail of transactions made. The starting point of this audit trail is the reception of an order and allows to trace the complete trail of this order up to its final execution. Also, Regulation 200 of the IDA specifies various information that must be contained in orders registers and records.

The regulations of the Bourse do not contain specific provisions regarding the information that must be recorded in registers and records. The Bourse therefore proposes to incorporate such provisions in its regulations limiting these, however, to the sole information that is relevant for derivative instruments that are traded on its market.

To that effect, the Bourse inspired itself from National Instrument 23-101 and from IDA Regulation 200.

G) Public Interest

The abrogation of some articles of Rule Seven of the Bourse, the amendments that are proposed to some other articles of this Rule and the abrogation of series C Policies that are

mentioned in this analysis all have the same objectives, which are :

- reflect the fact that the Bourse no longer carries on member regulation activities in connection with financial compliance and sales compliance;
- eliminate from the regulations of the Bourse all the provisions which, in reason of the withdrawal of the Bourse from the member regulation field, are no longer relevant; and
- clarify and adapt the regulatory provisions that are retained so that they better reflect the main vocation of the Bourse, i.e. the regulation of trading activities on its market.

The various abrogations and amendments that are proposed to Rule Seven and to the Series C Policies of the Bourse will not prejudice in any way the interests of the investing public in general nor those of approved participants of the Bourse or of the Bourse itself and will allow the regulations of the Bourse to be better adapted to the realities and requirements of the market operated by the Bourse.

Since the proposed abrogations and amendments will significantly modify the regulations of the Bourse in respect of approved participants' operations, the Bourse considers that these proposed amendments and regulations are of public interest.

H) Impact of the Proposed Amendments on Systems

The proposed regulatory abrogations and amendments will have no significant impact on the financial market structure, on competition and on compliance costs. In addition, they will allow to simplify and clarify the regulations of the Bourse by deleting therefrom an important number of provisions that are no longer relevant and by amending the retained Rules so that their interpretation and application be easier.

I) Interest of Financial Markets

The Bourse considers that the proposed

abrogations and amendments will not negatively affect the interests of financial markets and will not impose an unnecessary or inappropriate burden upon competition.

III COMMENTS

A) Efficiency

As previously mentioned, the objective of the proposed abrogations and amendments to Rule Seven of the Bourse and of the abrogation of the Policies of the Bourse that are discussed in this analysis is to update the regulations of the Bourse so that they no longer contain provisions that are now irrelevant in reason of the fact that the Bourse no longer carries on member regulation activities related to financial and sales compliance and to ensure that the regulatory provisions that are retained reflect clearly and adequately the requirements of the Bourse for what regards the trading activities of the approved participants of the Bourse.

The approval of these amendments will result in regulations that are clearer and will eliminate any confusion related to their interpretation and their application.

B) Process

The first step for the approval of the regulatory abrogations and amendments that are proposed in this analysis consisted in having them approved by the Special Committee – Regulatory Division of the Bourse.

Once approved by the Special Committee, the proposed abrogations and amendments, including this analysis are simultaneously published by the Bourse for a 30 days comment period and submitted to the Autorité des marchés financiers for approval.

Finally, a copy of the abrogations and amendments proposal is transmitted to the Ontario Securities Commission for information.

IV SOURCES

- Rule Seven of Bourse de Montréal Inc.
– Operations of Approved Participants
- Policy C-2 - Minimum Standards for Retail Accounts Supervision
- Policy C-4 - Establishing and Maintaining Adequate Internal Controls
- Policy C-10 - Internal Control Policy – Pricing of Securities
- Policy C-11 - Internal Control Policy on Derivative Risk Management
- Policy C-12 - Minimum Requirements for Suitability Relief Concerning Trades Not Recommended by an Approved Participant
- Policy C-13 - Responsibilities of the Chief Compliance Officer and the Ultimate Designated Person
- Policy C-15 - Electronic Delivery of Documents
- Decision no 2004-PDG-0223 of the Autorité des marchés financiers rendered on December 30, 2004 – Authorization granted to Bourse de Montréal Inc. to renounce to the exercise of functions and powers delegated by the Autorité des marchés financiers – Weekly Bulletin of the Autorité des marchés financiers of January 7, 2005 (Vol. 2, no 1) – Available in French only
- Rules Manual of the Investment Dealers Association of Canada (IDA)
- National Instrument 21-101 – Marketplace Operation
- National Instrument 23-101 – Trading Rules

**RULE SEVEN
OPERATIONS OF APPROVED PARTICIPANTS**

**Section 7001 - 7075
Financial Conditions - General**

7001 Compliance with ~~the Legal Requirements of the Securities Act~~
(01.04.93, 13.09.05, 00.00.00)

Every approved participant must comply with the requirements of any legislation applicable~~the Securities Act relating~~ to the regulation of brokerage and accounts, examination and information and must provide or make available to ~~the vice president of the Regulatory Division of~~ the Bourse all information which ~~the Bourse~~ may request for the purpose of any examination or investigation ~~being made by him~~ of the business or operations of such approved participant. Failure to comply with any of the provisions of applicable laws~~the said Act~~ or with any requirements of the Bourse pursuant thereto shall be deemed an act detrimental to the interest and welfare of the Bourse.

7002 Form of Reports
(01.04.93, 13.09.05, 00.00.00)

The Special Committee may set the scope, the preparation method~~basis~~ and the form of any report that must be submitted to the Bourse~~accounting audits, balance sheets, reports and statements prepared by approved participants' pursuant to the Rules of the Bourse, to the provisions of a securities legislation or pursuant to a decision, an order or a specific request of the Bourse or of one of its committees, including the Special Committee~~auditors under the provisions of the Securities Act and the specifications of any system permitting to ensure the implementation and maintenance of books or records ~~keeping and accounting~~ to be used by approved participants in connection with the carrying on of their business.

7003 Disclosure to Customers of Approved Participants' Financial Condition
(30.10.89, 01.02.93, 01.04.93, 13.09.05, abr. 00.00.00)

~~1) Approved participants or related companies, where applicable, must make available to their clients, on request, a statement of their financial condition as of the close of their latest financial year and based on the latest annual audited financial report filed with the Bourse provided that in order to prepare such statement, they have 75 days from the close of such financial year.~~

~~— Instead of the statement referred to in the preceding paragraph, approved participants or related companies, where applicable, which are also members or participants of any exchange in Canada or the United States may make available to clients the audited statement of financial condition which complies with the requirements of such other exchange.~~

~~2) A statement of financial condition must be made available to clients by those approved participants or related companies, who issue confirmations or monthly statements to such clients.~~

~~3) The statement of financial condition which is made available to clients must be accompanied by a report of the auditor of the approved participant or related company.~~

~~4) Any statement of financial condition published in a newspaper or other medium must be in the same form and of the same substance as the statement made available to customers.~~

~~5) As a minimum, the statement of financial condition of the approved participant must contain information under the following or similar headings:~~

~~ASSETS~~

~~Cash~~

~~Accounts receivable from brokers~~

~~Accounts receivable from clients~~

~~Inventory of securities (at the lower of cost or market value or at market value—state basis of valuation)~~

~~Investments in related companies and other companies~~

~~Other material assets (state basis of valuation)~~

~~Goodwill~~

~~LIABILITIES~~

~~Bank loans—secured~~

~~Accounts payable to other brokers and dealers~~

~~Accounts payable to clients~~

~~Accounts payable and accrued expenses~~

~~Securities sold short (at the higher of cost or market value or at market value—state basis of valuation)~~

~~Other material liabilities~~

~~CAPITAL~~

~~(including subordinated loans and retained earnings).~~

7004 Publication of a Consolidated Statement of Financial Condition

(01.02.93, 01.04.93, 13.09.05, [abr. 00.00.00](#))

~~—An approved participant may publish in a newspaper or other medium in Canada a statement of financial condition prepared on a consolidated basis with any holding company, related company or subsidiary of the approved participant. In the case of a consolidated statement of financial condition of an approved participant with a holding company, related company or subsidiary having a name similar to that of the approved participant, such statement must be accompanied by a note to the effect that the statement contains information relating to corporations which may not be subject to regulatory review in Canada. If an approved participant fails to include such note in its consolidated statement of financial~~

~~condition, he must, simultaneously with publication, send to each of its clients an unconsolidated statement of his financial condition.~~

7005 Definitions

(01.04.93, 13.09.05, 00.00.00)

For the purposes of this Rule Seven, unless otherwise specified, terms used are defined either in article 1102 of the Rules of the Bourse or in the “Joint Regulatory Financial Questionnaire and Report” form of Policy C-3.

7006 Capital Requirements

(01.04.93, 13.09.05, abr. 00.00.00)

~~—No approved participant must permit his risk adjusted capital to be less than zero, other than pursuant to a specific temporary exemption granted by the Bourse due to unusual circumstances. Each approved participant must promptly notify the vice president of the Regulatory Division of the Bourse if and whenever his risk adjusted capital is less than zero.~~

~~—The method of computation and the requirements as to risk adjusted capital can be found in the Joint Regulatory Financial Questionnaire and Report in Policy C 3. The Bourse may modify the method of computation and the requirements as to risk adjusted capital.~~

~~—Risk adjusted capital must be established after taking into account all such deductions that the Special Committee may generally make applicable, including any special deductions deemed appropriate in individual cases in order to recognize special situations and the additional risk of loss inherent in large holdings or concentration of particular securities. It is incumbent upon every approved participant, on his own initiative and whether or not any formal pronouncement has been made by the Bourse with regard to the need for a particular special deduction, to make all such special deductions as may be necessary in computing risk adjusted capital.~~

~~—The Special Committee has full discretion as to the necessity and sufficiency of special deductions in any particular case, and its decisions are not limited to the ordinary margin requirements of the Bourse but may take into consideration all factors pertaining to the market for the concerned security or futures contract and the affairs as a whole of the concerned approved participant.~~

7007 Restricted Trading Permit Holders

(01.05.89, 01.04.93, 13.09.05)

Restricted trading permit holders who are not dealing with the public, except in the capacity of trading representative for an approved participant, are not required to maintain any minimum net worth. However, they must make an annual declaration to the Bourse that their status in this respect has not changed during the past year.

Restricted trading permit holders who clear their transactions through a clearing approved participant must maintain a net worth equal to \$25,000.

If, in addition, these restricted trading permit holders act as market-makers or as traders in futures contracts, they must, in addition to the net worth required in the preceding paragraph, maintain an additional net worth

- 1) as market makers:
of \$10,000 per assignment up to a maximum of \$25,000;
- 2) as futures contracts traders:
\$25,000.

For the purpose of this article, "net worth" means the excess of cash and marketable securities, marked to market, over the aggregate liabilities.

This requirement is deemed satisfied if a letter of guarantee, in a form prescribed by the Bourse and containing a provision regarding the maintenance of "net worth", has been issued and is still in effect on behalf of such restricted trading permit holder by the clearing approved participant and in accordance with article 6082. The clearing approved participant must provide against its own capital any deficiency of "net worth" in the account of the restricted trading permit holder approved participant for whom it has issued a letter of guarantee.

7008 Joint Account
(01.04.93, 13.09.05)

- 1) A restricted trading permit holder who is a market-maker and does not deal with the public may have a joint account agreement with one other person who may not be an approved participant of the Bourse. Each joint account agreement must comply with the requirements of the Bourse, including disclosure for all other securities accounts in which the partner who is not an approved participant has a direct or an indirect interest and be approved by the Bourse. Such approval may be withdrawn at the discretion of the Bourse.
- 2) Each market-maker who makes an arrangement to finance his transactions in securities on which he has been appointed must inform the Bourse of the name of the creditor and the terms of such arrangement. The Bourse must be informed immediately of the intention of any party to terminate or change any such arrangement, or to issue a margin call.
- 3) On request, a market-maker must submit to the Bourse a monthly report of his use of credit pursuant to the present rule.

7009 Subordinated Loans
(01.04.93, 13.09.05, abr. 00.00.00)

~~—All subordinated loans whether cash or securities or both, where the proceeds are to be considered in the computation of the risk adjusted capital must be substantiated by the completion of a subordinated loan agreement in the form prescribed by the Bourse. Any reduction of a subordinated loan must also be approved by the Bourse.~~

~~—An approved participant must not make advances to a subordinated lender where, in the opinion of the Bourse, these advances could be considered as a direct or indirect reduction of capital or subordinated loans. Advances made in the normal course of business and for commercial purposes are allowed but other types of advances must be first approved by the Bourse.~~

7010 Early Warning System

(01.09.89, 01.07.91, 01.10.92, 01.04.93, 11.03.98, 08.05.03, 29.07.03, 13.09.05, abr. 00.00.00)

- ~~1) No transaction, of the type of those described in subparagraph 2 e) iv) of the present article and the undertaking of which would place the approved participant into the Early Warning System, must be done without prior notice to the vice president of the Regulatory Division of the Bourse and prior written authorization from him to complete such transaction.~~
- ~~2) LEVEL 1 — An approved participant is deemed to be in the early warning category Level 1 when one of the following situations occurs:~~
- ~~a) the risk adjusted capital of the approved participant is less than 5% of the aggregate of the total margin required for the approved participant;~~
 - ~~b) the quotient based upon dividing the risk adjusted capital by the average (when the average is a loss) of the preceding six months net profits or losses (before interest on internal subordinated debt, bonuses, income taxes and extraordinary items) is:

 - ~~i) for two consecutive months, greater or equal to 3, but less than 6;~~
 - ~~ii) for the current month, greater or equal to 3, but less than 6 and for the preceding month, less than 3;~~~~
 - ~~c) the risk adjusted capital of the approved participant is less than 6 times the net loss (before interest on internal subordinated debt, bonuses, income taxes and extraordinary items) of the approved participant for the current month;~~
 - ~~d) the Early Warning Reserve is negative; or~~
 - ~~e) the situation of the approved participant, at the discretion of the vice president of the Regulatory Division of the Bourse, is not satisfactory for any reason including, without limitation, financial or operating difficulties, problems arising from record keeping conversion or significant changes in clearing methods, the fact that the approved participant is a new approved participant or that he has been late in filing reports required pursuant to the regulations of the Bourse;~~
- ~~— in these cases, the following provisions apply:~~
- ~~i) when in the normal course of its capital surveillance activities, the approved participant realizes that he has crossed the threshold that activates the Early Warning System Level 1, then he must promptly notify in writing the vice president of the Regulatory Division of the Bourse. The notice must be provided by letter signed by the Chief Executive Officer and the Chief Financial Officer of the approved participant and must contain the following information:

 - ~~{1} which circumstances in paragraphs a), b), c) or d) are applicable;~~
 - ~~{2} an outline of the problems associated with the circumstances that triggered the Early Warning;~~
 - ~~{3} an outline of the proposal of the approved participant to rectify the problems identified; and~~~~

~~{4}— an acknowledgment that the approved participant is in an Early Warning category and that the restrictions contained in sub-paragraph iv) of the present article apply;~~

~~— A copy of said notice must be provided to the approved participant's external auditor and to the Canadian Investor Protection Fund.~~

~~ii) the vice president of the Regulatory Division of the Bourse must immediately designate the approved participant as being in Level 1 of the Early Warning System and must deliver to each of the Chief Executive Officer and Chief Financial Officer a letter containing the following:~~

~~{1}— advice that the approved participant is designated as being in level 1 of the Early Warning System;~~

~~{2}— a request that the approved participant files its next monthly financial report no later than 15 business days thereafter or, in the discretion of the vice president of the Regulatory Division of the Bourse if he considers it to be necessary, at such earlier time following the end of the relevant month;~~

~~{3}— a request that the approved participant provides the notice required under sub-paragraph e) i), if this has not already been done, and any additional information as required in sub-paragraph e) iii) and a statement that the notices received pursuant to sub-paragraphs e) i) and e) iii) will be forwarded to the Canadian Investor Protection Fund and may be forwarded to any securities commission having jurisdiction over the approved participant;~~

~~{4}— advice that the restrictions referred to in subparagraph e) iv) of the present article apply to the approved participant; and~~

~~{5}— such other information as the vice president of the Regulatory Division of the Bourse considers relevant.~~

~~iii) within five business days of receipt of the letter referred to in subparagraph e) ii), the Chief Executive Officer and the Chief Financial Officer of the approved participant must respond to the vice president of the Regulatory Division of the Bourse by letter signed by them both, with a copy to be sent to the external auditor of the approved participant. This letter must contain the information and acknowledgment required pursuant to sub-paragraph e) i) 2), 3) and 4), to the extent not previously provided, or an update of such information if any circumstances or facts have changed materially;~~

~~iv) if and so long as the approved participant remains designated as being in this Early Warning category, it must not, without the prior written consent of the vice president of the Regulatory Division of the Bourse:~~

~~{1}— reduce its capital in any manner including the re-purchase or cancellation of any of its shares;~~

~~{2}— reduce or repay any subordinated indebtedness;~~

~~{3}— make directly or indirectly any payments by way of loan, advance, bonus, dividend, repayment of capital or other distribution of assets to any director, officer, partner, shareholder, related company or subsidiary; or~~

- ~~{4}— increase its non-allowable assets unless a prior binding commitment to do so exists or enter into any new commitments, which would have the effect of materially increasing the non-allowable assets of the approved participant;~~
 - ~~v) — if and so long as the approved participant remains designated as being in this Early Warning category, it must continue to file its monthly financial reports within the time specified pursuant to subparagraph e) ii) 2) of the present article;~~
 - ~~vi) — as soon as practicable after the approved participant is designated as being in this Early Warning category, the vice president of the Regulatory Division of the Bourse must conduct an on-site review of the approved participant's procedures for monitoring capital on a daily basis and prepare a report as to the results of this review;~~
 - ~~vii) — the vice president of the Regulatory Division of the Bourse must also advise the Examination Subcommittee of the fact that an approved participant has been designated as being in an Early Warning Category Level 1 without naming the approved participant.~~
- ~~3) LEVEL 2 — An approved participant is deemed to be in Early Warning Level 2 when one of the following situations occurs:~~
- ~~a) — risk-adjusted capital of the approved participant is less than 2% of the aggregate of the total margin required for the approved participant;~~
 - ~~b) — the quotient based upon dividing the risk-adjusted capital of the approved participant by the average (where the average is a loss) of the preceding six months net profits or losses (before interest on internal subordinated debt, bonuses, income taxes and extraordinary items) is:

 - ~~i) — less than 3, for two successive months;~~
 - ~~ii) — greater or equal to 3, but less than 6 for the current month and less than 3 for the preceding month;~~~~
 - ~~c) — the sum (where the sum is a loss) of the preceding three months net profit or loss (before interest on internal subordinated debt, bonuses, income taxes and extraordinary items) exceeds the risk-adjusted capital at the end of the third month;~~
 - ~~d) — the risk-adjusted capital of the approved participant is less than three times its net loss (before interest on internal subordinated debt, bonuses, income taxes and extraordinary items) for the immediately preceding completed month;~~
 - ~~e) — the Early Warning Excess is negative;~~
 - ~~f) — the approved participant has been on Early Warning 3 times in the last 6-month period;~~
 - ~~g) — one or the other of the two profitability tests triggers Level 1 in conjunction with capital or liquidity tests of Level 1;~~
 - ~~h) — the condition of the approved participant, at the sole discretion of the vice president of the Regulatory Division of the Bourse, is not satisfactory for any reason including, without~~

~~limitation, financial or operating difficulties, problems arising from record keeping conversion or significant changes in clearing methods, the fact that the approved participant is a new approved participant or that he has been late in filing the reports required by the regulations of the Bourse;~~

~~— in these cases, the following provisions apply in addition to the provisions of Level 1 which must continue to apply, except to the extent inconsistent with paragraph 3:~~

- ~~i) when in the normal course of its capital surveillance activities, the approved participant realizes that he has crossed the threshold that activates the Early Warning System Level 2, then he must promptly notify in writing the vice president of the Regulatory Division of the Bourse. The notice must be provided by letter signed by the approved participant's Chief Executive Officer and Chief Financial Officer;~~
- ~~ii) the approved participant must file a weekly financial report containing the same information required in a monthly financial report no later than 5 business days or, if the vice president of the Regulatory Division of the Bourse considers it to be necessary, at such earlier time;~~
- ~~iii) the Chief Executive Officer and the Chief Financial Officer of the approved participant must be called to meet the vice president of the Regulatory Division of the Bourse to outline the proposals of the approved participant for rectifying the problems which account for the approved participant being designated as being in Early Warning Level 2;~~
- ~~iv) the approved participant must report weekly in a format satisfactory to the vice president of the Regulatory Division of the Bourse aged segregation deficiencies and indicate their resolution;~~
- ~~v) the approved participant must pay the costs associated with any special examination or monitoring deemed necessary by the vice president of the Regulatory Division of the Bourse;~~
- ~~vi) the approved participant may be subject, at the discretion of the vice president of the Regulatory Division of the Bourse, to a reduced allowable free credit ratio;~~
- ~~vii) the vice president of the Regulatory Division of the Bourse may require from the approved participant and the latter must then elaborate and provide, in such time and for such period as the vice president of the Regulatory Division of the Bourse deems expedient, a business plan relating to its business in order to answer his questions;~~
- ~~viii) the vice president of the Regulatory Division of the Bourse may request and the approved participant must provide in such time as the vice president of the Regulatory Division of the Bourse considers necessary, such reports or information, on a daily or a less frequent basis, as may be necessary or desirable in the opinion of the vice president of the Regulatory Division of the Bourse to assess and monitor the financial condition or operations of the approved participant;~~
- ~~ix) the vice president of the Regulatory Division of the Bourse, as soon as practicable after he has designated an approved participant as being in Level 2 of the Early Warning System, must prepare and submit a report to the Examination Subcommittee outlining the financial and operational conditions of the approved participant and must, at its request, identify the approved participant to the Examination Subcommittee;~~

- x) ~~the vice president of the Regulatory Division of the Bourse may, without according the approved participant a hearing, issue a proposed order that prohibits an approved participant from opening any new branch offices, hiring any new registered representatives or investment representatives, opening any new customer accounts or changing in any material respect its inventory positions. If the vice president of the Regulatory Division of the Bourse imposes any such prohibitions pursuant to the present article, he must give written notice to the approved participant and the approved participant may request in writing within three (3) business days of receipt of notice that the proposal be reviewed by members of the Examination Subcommittee. If no request for review is made, the order must apply as of such date designated by the vice president of the Regulatory Division of the Bourse, occurring on or after the expiration of the three (3) business days. If such a request is made, the Examination Subcommittee must designate at least two (2) members of the Examination Subcommittee to review the order and to confirm, amend or revoke the proposal of the vice president of the Regulatory Division of the Bourse within seven (7) business days of the request for review, or such longer time as may be agreed by the approved participant. The approved participant and the vice president of the Regulatory Division of the Bourse must be permitted to make representations in such review in person (including by their staff, agents or counsels) or in writing. Pending the expiration of the said three (3) business days notice by the vice president of the Regulatory Division of the Bourse and the result of the review, if applicable, the prohibitions must not apply but on becoming effective they must continue until the approved participant is so designated as not being in an early warning category level 2;~~
- xi) ~~the vice president of the Regulatory Division of the Bourse must promptly advise any other participating institution of the Canadian Investor Protection Fund of which the approved participant is also a member, of the fact that the approved participant has been designated as being in Level 2 of the Early Warning System, the reasons for such designation and any sanctions or restrictions that have been imposed upon the approved participant pursuant to paragraph 3 of the present article.~~
- 4) ~~Requirements imposed in the present article must continue to apply until the approved participant is no longer designated as being in Level 1 or Level 2 of the Early Warning System as demonstrated by the latest filed monthly financial report of the approved participant or any such other evidence or assurance as may be appropriate in the circumstances. If the vice president of the Regulatory Division is satisfied by the measures taken by the approved participant to improve its financial situation, he may release him from all or from some of the restrictions imposed under the present article.~~
- 5) ~~An approved participant shall remain designated as being in level 1 or level 2 of the Early Warning System, as the case may be, and pursuant to the present article, until the latest filed Monthly Financial Report of the approved participant demonstrates, in the opinion of the vice president of the Regulatory Division of the Bourse, that the approved participant is no longer required to be designated as being in one of the levels of the Early Warning System and that he has otherwise complied with the present article.~~

7011 Establishing and maintaining adequate internal controls
(00.00.96, 13.09.05, 00.00.00)

Every approved participant must establish and maintain adequate internal controls to assist in achieving the objective of ensuring, as far as practical, the orderly and efficient conduct of the approved participant's business, in accordance with Policy C 4 of the Bourse.

Section 7076 - 7150
Insurance (abr. 00.00.00)

7076 Insurance

(28.02.87, 09.10.87, 30.12.88, 06.08.90, 20.12.91, 01.05.92, 03.03.93, 01.04.93, 01.12.94, 08.11.95, 20.12.96, 01.07.97, 01.04.03, 01.01.05, abr. 00.00.00)

~~1) Mail Insurance~~

- ~~— Every approved participant must effect and keep in force mail insurance against loss arising by reason of any outgoing shipments of money or securities, negotiable or non negotiable, by first class mail, registered mail, registered air mail, express or air express, such insurance to provide at least 100% cover.~~
- ~~— The vice president of the Regulatory Division of the Bourse may exempt an approved participant from the requirement of the present paragraph if the approved participant delivers a written undertaking to the vice president Regulatory Division, that it will not use the mail for outgoing shipments of money or securities, negotiable or non negotiable, by first class mail, registered mail, registered air mail, express or air express.~~

~~2) Financial Institution Bond~~

- ~~— Every approved participant must, by means of a Financial Institution Bond or Bonds (with Discovery Rider attached or Discovery Provisions incorporated in the Bond), effect and keep in force insurance against losses arising as follows as provided for in the standard form contract:~~
 - ~~a) Clause (A) Fidelity~~
 - ~~— Any loss through any dishonest or fraudulent act of any of its employees, committed anywhere and whether committed alone or in collusion with others, including loss of property through any such act of any of its employees;~~
 - ~~b) Clause (B) On Premises~~
 - ~~— 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 office of the insured, of a banking institution or of a clearing corporation or within any recognized place of safe deposit, as more fully defined in the Standard Form Number 14 of Financial Institution Bond, herein referred to as the Standard Form;~~
 - ~~e) Clause (C) In Transit~~
 - ~~— Any loss of money and securities or other property (except certified cheques and bank drafts), whether negotiable or non negotiable, must be covered by insurance. The value of securities in transit in the custody of any employee or any person acting as a messenger must not at any time exceed the protection provided under the present subparagraph;~~
 - ~~d) Clause (D) Forgery or Alterations~~

~~— 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, as more fully defined in the Standard Form;~~

e) ~~Clause (E) Securities~~

~~— 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, as more fully defined in the Standard Form.~~

3) a) ~~Notice of termination~~

~~— Each Financial Institution Bond maintained by an approved participant must contain a rider containing provisions to the following effect:~~

i) ~~the insurer must notify the Bourse at least 30 days prior to the termination or the cancellation date of the bond, except in the event of termination of the bond due to:~~

a) ~~the expiration of the coverage period provided by the bond;~~

b) ~~the receipt of written notice from the insured requesting to cancel the bond;~~

e) ~~the taking over of the insured by a receiver or other liquidator, or by provincial, federal or state officials; or~~

d) ~~the taking over of the insured by another institution or entity.~~

ii) ~~In the event of termination of the bond in accordance with sub paragraphs i) b), c) or d), the insurer must, upon becoming aware of such termination, give immediate written notice of the termination to the Bourse. Such notice shall not impair or delay the effectiveness of the termination.~~

~~b) Termination or cancellation as a result of a take over~~

~~In the event a Financial Institution Bond is to be terminated or cancelled as a result of the take over of an approved participant by another institution or entity as described in paragraph 3 a) i) d), the approved participant must ensure that bond coverage is in place and provides a period of 12 months from the date of such take over within which to discover the losses, if any, sustained by the approved participant prior to the effective date of such take over. The approved participant must then pay, or cause to be paid, any applicable additional premium.~~

4) ~~Amounts required~~

~~— The minimum amounts of insurance to be maintained for each clause in the aggregate under paragraph 2 of this article must be the greater of:~~

a) ~~\$500,000 or, in the case of a Type 1 introducing broker, \$200,000; or~~

- b) ~~1% of the balance of the base amount or, in the case of a Type 1 and Type 2 introducing broker, one half of one percent of the base amount (1/2%);~~

~~provided that, for each clause, such minimum amount of insurance need not exceed \$25,000,000.~~

~~For the purposes of the present paragraph, the term "base amount" means the greater of:~~

- i) ~~the aggregate of net equity for each customer, such aggregate being determined by taking the total value of cash and securities owed to the customer by the approved participant less the total value of cash and securities owed by the customer to the approved participant; and~~
- ii) ~~the aggregate of total liquid assets and total other allowable assets of the approved participant determined in accordance with Statement A of the Joint Regulatory Financial Questionnaire and Report.~~

~~5) Provisos~~

- a) ~~the amounts of insurance required to be maintained by an approved participant must as a minimum be by way of a Financial Institution Bond with a double aggregate limit or including a provision for full reinstatement of the amount of coverage;~~
- b) ~~should there be insufficient coverage, an approved participant will be deemed to be complying with the requirements of this article provided that any such deficiency does not exceed 10 percent of the insurance coverage required and that evidence is provided within two months of the dates of completion of the quarterly operations questionnaires or the annual audit that the deficiency has been corrected. If the deficiency of the insurance coverage required is greater than 10 percent, measures must be taken by the approved participant in order to correct the said deficiency within 10 days of its determination and the approved participant must immediately notify the vice president of the Regulatory Division of the Bourse;~~
- c) ~~insurance against losses under sub-paragraph 2) e), Clause (E) — Securities, may be incorporated in the Financial Institution Bond or may be carried by means of a rider attached thereto or by a separate Securities Forgery Bond;~~
- d) ~~the Financial Institution Bond maintained pursuant to paragraph 2 of this article may contain a clause or rider stating that all claims made under the bond are subject to a deductible;~~
- e) ~~for the purposes of calculating insurance requirements, no distinction must be made between securities in non negotiable form and those in negotiable form.~~

~~6) Insurer~~

~~Insurance required to be effected and kept in force by an approved participant pursuant to the present article may be underwritten directly with either (i) an insurer registered or licensed under the laws of Canada or any province of Canada or (ii) any foreign insurer approved by the Bourse. No foreign insurer will be approved by the Bourse if its net worth, according to the last audited balance sheet, is lesser than \$75 millions, provided acceptable financial information with respect to such insurer is available for examination and the Bourse is satisfied that the insurer is subject to supervision by~~

~~regulatory authorities in the jurisdiction of incorporation of the insurer which is substantially similar to the supervision of insurance companies in Canada.~~

~~7) Global Insurance Policies~~

~~Where the insurance maintained by an approved participant in respect of any of the requirements under the present article names as the insured or benefits the approved participant, together with any other person or group of persons, whether within Canada or elsewhere, the following must apply:~~

- ~~a) the approved participant must have the right to claim directly against the insurer in respect of any loss, and any payment or satisfaction of such loss must be made directly to the approved participant; and~~
- ~~b) the individual or aggregate limits under the insurance policy may only be affected by claims made by or on behalf of:

 - ~~i) the approved participant;~~
 - ~~ii) any of the approved participant's subsidiaries whose financial results are consolidated with those of the approved participant; or~~
 - ~~iii) a holding company of the approved participant provided that this holding company does not carry on any business or own any investment other than its interest in the approved participant;~~~~

~~without regard to the claims, experience or any other factor referable to any other person.~~

~~8) Exemption~~

~~The Special Committee may exempt an approved participant from the requirements of the present article where the approved participant is not dealing with the public and/or is not a member of a clearing corporation.~~

7077 Reporting of Insurance Claims (01.04.93, 13.09.05, abr. 00.00.00)

~~Every approved participant must give to the vice president of the Regulatory Division of the Bourse written notice, with all available particulars, of any claim (other than client losses relating to lost document bonds) reported in writing by the approved participant to its insurers or their authorized representatives arising under the Financial Institutional Bond which such approved participant is required to effect and keep in force under article 7076. Such notice must be given within two business days of the approved participant so reporting to the insurer or its authorized representatives.~~

Section 7151 - 7159 Financial Reports

7151 Financial Questionnaires and Reports (01.04.93, 13.09.05, 00.00.00)

Approved participants must file with the Bourse, when requested by it, at such times as may be designated, a copy of the most recent audited completed financial questionnaire and report completed in the such form prescribed by its Policy C-3 of the Bourse.

7152 Members of Other Recognized Exchanges or Regulatory or Self-Regulatory Organizations Associations
(01.04.93, 13.09.05, 00.00.00)

Where an approved participant of the Bourse is also a regulated entity, as defined in Policy C-3 of the Bourse, and prepares reports and financial statements as required by such another recognized exchange or regulatory or self-regulatory organization association, the Bourse may, by prior arrangement with the approved participant, accept, in lieu of the questionnaire and report to which article 7151 refers requirements under this section, an copy of the most recent audited reports and financial statements filed by the approved participant with this other exchange or regulatory or self-regulatory organization along with a written confirmation annual certificate, from such other recognized exchange or regulatory or self-regulatory organization association, stating that the approved participant satisfies all of its requirements relating to the regulatory capital required to be maintained as of the date of the annual statement together with a copy of the statements and reports submitted to such other recognized exchange or association.

7153 Trading activity statement - Restricted Trading Permit Holders
(04.05.98, 13.09.05, 00.00.00)

Upon request from the Bourse, the clearing approved participant has the obligation to provide a trading activity statement from the previous day or for a specified period of time, for each restricted trading permit holder for whom the approved participant clears and guarantees the transactions made on the Bourse. This statement must contain the following information:

- a) daily activity result;
- b) year to date activity result;
- c) margin required on positions held;
- d) guarantee deposits;
- e) cash movements (deposits, withdrawals, interest or dividend adjustments to the account); and
- f) the global balance of account.

7154 Interim Questionnaires
(01.04.93, 13.09.05, abr. 00.00.00)

- ~~1) The vice president of the Regulatory Division of the Bourse may request every approved participant and related company to submit one or more interim financial questionnaires every year.~~
- ~~2) One copy of the completed interim financial questionnaire must be submitted to the vice president of the Regulatory Division of the Bourse within 5 weeks of the questionnaire date.~~

~~3) If an extension of time is required from the regular 5 week period, a written request to the vice president of the Regulatory Division of the Bourse must be made, indicating the reason for the delay and the proposed date of completion. A copy of the approved participant's internal financial statements as at the questionnaire date may be requested.~~

7155 Monthly Financial Report

(01.04.93, 11.03.98, 13.09.05, abr. 00.00.00)

~~Every approved participant must prepare and submit a monthly financial report in the form prescribed no later than 20 business days following the end of the month or at the date prescribed in article 7010. The report must be prepared in accordance with generally accepted accounting principles and the directives to the "Joint Regulatory Financial Questionnaire and Report" of Policy C-3 of the Bourse.~~

~~Where an approved participant concludes that its risk adjusted capital is negative, he must immediately notify the vice president of the Regulatory Division of the Bourse.~~

~~The Bourse may impose to approved participants who do not submit their monthly financial report or the financial report required pursuant to article 7010 at the prescribed date a fine in an amount approved by the Special Committee for each business day of delay.~~

7156 Working Papers

(01.04.93, 13.09.05, abr. 00.00.00)

~~—A copy of each monthly financial report and of the interim financial questionnaire and all working papers and memorandum relating thereto must be retained by the approved participant for at least one year.~~

~~—The Chief Financial Officer of the approved participant must ensure that his working papers include at least the following:~~

~~1) reconciliation of all bank accounts;~~

~~2) trial balances of the general and subsidiary ledgers;~~

~~3) details of margin accounts showing for each account:~~

~~—— name of account;~~

~~—— account number;~~

~~—— amount required to fully margin;~~

~~—— for all other accounts, the reason for which no margin is required;~~

~~4) a summary of cash settlement accounts, debit or credit along with the margin required or the reason for which no margin is required;~~

~~5) reconciliation of all brokers' and dealers' accounts regardless of classification.~~

7157 Statistical Information

(01.04.93, 29.07.02, 01.10.02, 00.00.00)

Every approved participant must provide to the Bourse, upon request, such statistical information with respect to itshis business as, in the opinion of the BourseSpecial Committee, may be necessary or in the interest of all approved participants of the Bourse, ~~provided that any request for such information be approved by the Special Committee.~~

Section 7160 - 7170
Audit Requirements
(abr. 00.00.00)

7160 Audits

(01.04.93, 13.09.05, abr. 00.00.00)

~~—Audits of an approved participant's accounts must be made once a year, and more often if so directed by the Bourse.~~

~~—Unless otherwise directed, the mandatory audit must be made as of the approved participant's financial year end.~~

7161 Appointment of Approved Participants' Auditors

(01.04.93, 13.09.05, abr. 00.00.00)

~~—Approved participants' auditors must have practiced not less than 5 years and be approved by the Bourse.~~

7162 Resignation of Approved Participants' Auditors

(01.04.93, 13.09.05, abr. 00.00.00)

~~—The resignation, voluntary or otherwise, by an approved participant's auditor must be reported immediately to the Bourse by the approved participant and by its auditor giving reasons therefore.~~

7163 Auditor's Reports

(01.04.93, 13.09.05, abr. 00.00.00)

~~—The auditors' reports cover the statements, schedules and certificates of the Joint Regulatory Financial Questionnaire and Report of Policy C-3 of the Bourse.~~

7164 Audit Deadline

(23.06.89, 01.04.93, 15.07.97, 13.09.05, abr. 00.00.00)

~~—The Joint Regulatory Financial Questionnaire and Report, including the auditors' reports and the required financial statements and schedules, must be forwarded to the vice president of the Regulatory Division of the Bourse within 7 weeks of the date of the audit. If an extension is required, a written request must be made to the vice president of the Regulatory Division of the Bourse before the due date, giving the reason for the delay and specifying the proposed date for completion.~~

7165 Audit Guidelines

(30.09.89, 01.04.93, 15.07.97, 13.09.05, abr. 00.00.00)

- ~~1) Approved participants' auditors must be independent and free from any obligation to or interest in the management, ownership or the financing of any approved participant, on whose financial statements they are reporting. The approved participants' auditor must declare any such interest to the Bourse.~~
- ~~2) Approved participants' auditors must refer to Title V of the *Securities Act (Quebec)* or any future amendments thereto.~~
- ~~3) The audit must be conducted in accordance with generally accepted auditing standards and must include a review of the accounting system, the internal accounting control and procedures for safeguarding assets. It must include all audit procedures necessary under the circumstances to support the opinions which must be expressed in the approved participant's auditor's reports of Parts I and II of the "Joint Regulatory Financial Questionnaire and Report". Because of the nature of the securities industry, the substantive audit procedures must be carried out as of the audit date and not as of an earlier date, notwithstanding the fact that the audit is otherwise conducted in accordance with generally accepted auditing standards.~~
- ~~4) The scope of the audit must include the following procedures, but nothing herein must be construed as limiting the audit or permitting the omission of any additional audit procedure which any approved participant's auditor would deem necessary under the circumstances. For purposes of the present article, tests fall into two basic categories (as described in the Canadian Institute of Chartered Accountants (CICA) Handbook paragraphs 5300.11 to 5300.21):

 - ~~i) specific item tests, whereby the auditor examines individual items which he considers should be examined because of their size, nature or method of recording (CICA Handbook paragraph 5300.13);~~
 - ~~ii) representative item tests, whereby the auditor's objective is to examine an unbiased selection of items (CICA Handbook paragraph 5300.13).~~

~~— The determination of an appropriate sample on a representative basis may be made using either statistical or non-statistical methods (CICA Handbook paragraph 5300.15).~~

~~— In determining the extent of the tests appropriate in paragraphs A) i), ii), iii) and iv) below, the approved participant's auditor must consider the adequacy of the system of internal control and the level of materiality appropriate in the circumstances so that in the auditor's professional judgement, the risk of not detecting a material misstatement, whether individually or in the aggregate, is reduced to an appropriately low level (e.g. in relation to the estimated risk adjusted capital and early warning provisions).~~

~~— The approved participant's auditor must:~~

 - ~~A) as of the audit date:

 - ~~i) compare ledger accounts with the trial balances obtained from the general and subsidiary ledgers and compare the subsidiary ledger totals with their respective control accounts (see paragraph 6 below dealing with electronic data processing);~~
 - ~~ii) account for, by examination and comparison with the books and records, all securities, including those held in safekeeping or in segregation, currencies and other like assets on hand, in vault or otherwise in the physical possession of the approved participant. Where~~~~~~

~~the nature and size of an approved participant's operations are such that there are employees who are independent of those employees who handle or record securities, such independent employees may undertake all or a portion of the count and examination under the approved participant's auditor's supervision. The approved participant's auditor must then test count and compare with the independent employees' counts and the security position records, sufficient securities so as to be satisfied that the entire count was materially correct. The approved participant's auditor must maintain control over these assets until the physical examination has been completed;~~

- ~~iii) on a test basis, verify securities in transfer and in transit between offices of the approved participant;~~
- ~~iv) review the balancing of all security positions and open futures contracts and options on futures contracts. Review the reconciliation of all mutual funds, brokers, dealers and clearing accounts. Where a position or account is not in balance with the records (after adjustment to the physical count), ascertain that an adequate provision has been made in accordance with the Notes and Instructions for out of balance positions embodied in Statement B of the Joint Regulatory Financial Questionnaire and Report for any potential loss;~~
- ~~v) review bank reconciliations. After allowing at least ten business days to elapse, obtain bank statements, cancelled cheques and all other debit and credit memos directly from the banks and, by appropriate audit procedures, substantiate on a test basis the reconciliations with the ledger control accounts as of the audit date;~~
- ~~vi) ensure that all custodial agreements are in place for securities deposited with acceptable securities locations. In addition, for locations classified as other foreign securities locations, the auditor must obtain evidence, on an annual basis, of the approval of such locations as documented in the minutes of the Board of Directors or other duly constituted Board committee meetings of the approved participant;~~
- ~~vii) obtain written confirmation with respect to the following:

 - ~~1) bank balances and other deposits including hypothecated securities;~~
 - ~~2) money, security positions and open futures contracts and options on futures contracts including deposits with clearing corporations and like organizations and money and security positions with mutual fund companies;~~
 - ~~3) money and securities loaned or borrowed (including subordinated loans) and, as the case may be, details of securities received or deposited in guarantee thereof;~~
 - ~~4) accounts of, or with brokers, or dealers representing regular, joint and contractual commitment positions including money and security positions as well as open futures contracts and options on futures contracts;~~
 - ~~5) accounts of directors and officers or partners, including money and security positions as well as open futures contracts and options on futures contracts;~~~~

- ~~6) accounts of clients, employees and shareholders, including money and security positions and open futures contracts and options on futures contracts;~~
- ~~7) guarantees in cases where required to margin guaranteed accounts, as at the date of audit at the end of the year;~~
- ~~8) statements from the approved participant's lawyers as to the status of lawsuits and other legal matters pending; these declarations must, if possible, include an estimate of the extent of the liabilities so disclosed;~~
- ~~9) all other accounts which in the opinion of the approved participant's auditor must be confirmed.~~

~~Confirmation requirements shall be deemed to have been complied with if positive requests for confirmation have been mailed by the approved participant's auditor in an envelope bearing the auditor's return address and second requests are similarly mailed to those not replying to the initial request. Appropriate alternative audit procedures must be used where replies to second requests have not been received. For accounts mentioned in paragraphs 4), 6) and 7) above, the approved participant's auditor must i) select specific accounts for positive confirmation based on (a) their size (all accounts with a net equity exceeding a certain monetary amount, such amount being related to the level of materiality) and (b) other characteristics such as accounts in dispute, accounts that are significantly undermargined, nominee accounts, and accounts that would require significant margin without the existence of an effective guarantee, and ii) select a representative sample from all other accounts of sufficient extent to provide reasonable assurance that a material error, if it exists, will be detected. For accounts in paragraphs 4), 6) and 7) above that are not confirmed positively, the approved participant's auditor must mail statements with a request that any differences be reported directly to the auditor. Clients' accounts without any balance whatsoever and those closed since the last audit date must also be confirmed on a test basis using either positive or negative confirmation procedures, the extent of which will be governed by the adequacy of the internal control.~~

~~Where a reply to a positive confirmation request for the guarantee referred to in paragraph 7) above has not been received, this guarantee must not be accepted for margin reduction purposes in respect of the account guaranteed unless and until a written form of confirmation of the guarantee has been received by the approved participant's auditor (or by the approved participant if received subsequently to the filing of the Joint Regulatory Financial Questionnaire and Report), or a new guarantee agreement is signed by the customer. If a guarantor responds to a positive or negative confirmation disputing the validity of the guarantee or its extent, such guarantee must not be accepted for margin reduction purposes until the dispute is resolved and the confirmation of the guarantee is provided in acceptable form. In addition to the confirmation procedures, the approved participant's auditor must review a sample of guarantee agreements to ensure duly executed and completed agreements exist and such agreements comply with article 7461 of the Rules of the Bourse.~~

~~viii) subject the statements in Part I and Schedules in Part II to audit tests or other auditing procedures to determine that the margin and capital requirements, which are used in the determination of the excess (or deficiency) of risk adjusted capital are calculated in~~

~~accordance with the Rules and Policies of the Bourse, in all material respects in relation to the financial statements taken as a whole;~~

~~ix) obtain a letter of representation from the senior officers of the approved participant with respect to the fairness of the financial statements including among other things, the existence of contingent assets and liabilities and of commitments.~~

~~B) check on a test basis that the approved participant's procedures are such that securities held for safekeeping are described as being so held on the statement remitted to the client and on the approved participant's security position record;~~

~~C) complete and report on the results of applying the prescribed procedures contained in the Report on Compliance for Segregation of Securities in the "Joint Regulatory Financial Questionnaire and Report".~~

~~5) In addition, the approved participant's auditor must:~~

~~a) complete and report on the results of applying the prescribed procedures contained in the Report on Compliance for Insurance in the "Joint Regulatory Financial Questionnaire and Report";~~

~~b) report whether the approved participant's membership titles or shares in a self-regulatory organization are owned outright and free of any encumbrance; and~~

~~c) report on any event subsequent to the date of filing, which has had a material adverse effect on the excess (or deficiency) of risk-adjusted capital.~~

~~6) The approved participant's auditor's review of the accounting system, the internal accounting control and procedures for safeguarding securities prescribed in the above audit requirements must encompass any in-house or service bureau operations. (This may include reliance on CICA Handbook Section 5900 report "Opinions on Control Procedures at a Service Organization"). As a result of such review and evaluation, the approved participant's auditor may be able to reduce the extent of detailed checking of clients and other account statements to trial balances and security position records.~~

~~7) Copies of the Joint Regulatory Financial Questionnaire and Report and all audit working papers must be retained by the approved participant's auditor for 6 years (the two most recent years in a readily accessible location). All working papers must be made available for review by the vice president of the Regulatory Division of the Bourse and the Canadian Investor Protection Fund.~~

~~8) If the approved participant's auditor observes during the regular conduct of his audit any material breach of the provisions of the Quebec Securities Act or of the Rules and Policies of the Bourse pertaining to the calculation of the approved participant's financial position, handling and custody of securities and maintenance of adequate records, he must make a report to the vice president of the Regulatory Division of the Bourse.~~

7251 Registration of Securities
(01.04.93, abr. 00.00.00)

~~—No security, with the exception of a new issue at delivery date, must be registered in the name of the client or his nominee prior to the receipt of payment.~~

7252 Redemption agent
(01.04.93, 01.03.94, 13.09.05, abr. 00.00.00)

~~No approved participant must, in respect of debt securities of any maturity, pay to a client the redemption price or other amount due on redemption or maturity of such securities which price or amount exceeds \$100,000 unless it first has received an amount equal to such price or other amount from the borrower or its agent by an irrevocable bank transfer or by a cheque which is certified or accepted without qualification by a chartered bank (as defined in article 1102) or payment has been received by or to the credit of the approved participant through the facilities of The Canadian Depository for Securities Limited or Depository Trust Company provided that this rule must not apply in respect of:~~

- ~~1) securities referred to in Group I of article 7204, , issued by or guaranteed by the Government of Canada;~~
- ~~2) securities referred to in Group II of article 7204, , issued by or guaranteed by any Province of Canada;~~
- ~~3) securities representing obligations which are a charge on and payable out of the Consolidated Revenue Fund of Canada or out of the consolidated revenue fund or similar fund of any Province of Canada;~~
- ~~4) bankers acceptances, deposit certificates, promissory notes or debentures issued by a chartered bank (as defined in article 1102);~~
- ~~5) securities which are rated by any of the following: Dominion Bond Rating Service, Canadian Bond Rating Service Limited, Moody's Investors Service Inc. or Standard & Poor's Corporation at the highest applicable category.~~

Section 7351 - 7400
Offices and Employees

7351 Addresses of Approved Participants
(01.04.93, 13.09.05, 00.00.00)

Every approved participant must provide the Bourse with an address where notices may be served; and must subsequently inform the Bourse prior to any changes thereof, ~~where notices may be served.~~

7352 Branch Offices
(01.08.87, 01.04.93, 21.08.02, 13.09.05, abr. 00.00.00)

~~No approved participant must establish a branch office (four or more registered representatives or investment representatives) or appoint or replace the person in charge of a branch office without the prior consent of the Bourse. An approved participant may operate a sub-branch (less than four registered representatives or investment representatives) but must obtain prior approval from the Bourse. The person~~

~~in charge of a branch must have experience acceptable to the Bourse and have satisfied the applicable proficiency requirements outlined in Policy F 2 of the Bourse. An approved participant having a sub-branch with more than two registered representatives or investment representatives must designate a supervisor of such office who must normally be present at such office.~~

~~—The Bourse may, at its discretion, at any time, withdraw any such consent as aforesaid and the approved participant concerned must comply with such directions as the Bourse may make pursuant to such withdrawal.~~

~~Exemption: Notwithstanding the foregoing provisions of the present article, an approved participant is exempted from seeking approval by the Bourse provided approval is sought from and granted by the self regulatory organization responsible for the supervision of the concerned approved participant, under the agreement establishing the Canadian Investor Protection Fund.~~

7353 (Reserved for future use)

7354 Hiring of Exchange Employees

(01.04.93, abr. 13.09.05)

7355 Use of Offices by Clients and other Non-Employees Prohibited

(01.04.93, 13.09.05, abr. 00.00.00)

~~—No approved participant must allow clients and others who are not employees of the approved participant or of a related company of the approved participant to operate out of the business premises of the approved participant or a related company of such approved participant or use the facilities thereof except with the prior approval of the Bourse, and no such approval shall be given if the Bourse is of the opinion that the application is being made on behalf of a promoter in securities or for the purpose of facilitating the promotion of securities.~~

Section 7401 - 7449

~~Registered Representatives and Investment Representatives~~Approved Persons (00.00.00)

7401 Approval

(01.04.93, 13.09.05, abr. 00.00.00)

~~—No person must have any dealings with any client or prospective client of any approved participant or related company, in obtaining, taking or soliciting orders for or advising on trades in securities, listed or unlisted, including mutual fund units, unless such person has been approved for this purpose by the Bourse.~~

~~Exemption: Notwithstanding the foregoing provisions of the present article, a person is exempted from seeking approval by the Bourse provided approval is sought from and granted by the self regulatory organization responsible for the supervision of the concerned approved participant, under the agreement establishing the Canadian Investor Protection Fund.~~

7402 Classes of Registration

(01.04.93, 21.08.02, 13.09.05, abr. 00.00.00)

~~—There are three classes of registration:~~

- ~~a) full registration entitles the registered representative to handle any and every type of securities business on behalf of his employer, including to give advices or opinions or to make recommendations to the clients he is dealing with;~~
- ~~b) limited registration limits the registrant to the selling of mutual fund units on behalf of his employer;~~
- ~~c) restricted registration (investment representative) applies to persons who, in the opinion of the Bourse, are not fully qualified, are not engaged primarily to deal with clients or, if so engaged, are solely executing orders on behalf of clients without giving them advice or opinion or any recommendation. Such persons may only perform such functions or services for their employer as may be approved by the Bourse. Solicitation of orders for trades in securities is strictly forbidden.~~
- ~~d) In any case, the applicant must have satisfied the applicable proficiency requirements outlined in Policy F-2 of the Bourse.~~

7403 Application for Approval as an Approved Person
(01.04.93, 13.09.05, 00.00.00)

Any person employed by an approved participant of the Bourse and wishing to have access to the electronic trading system of the Bourse must obtain the prior approval of the Bourse.

The application for approval as an approved person~~investment advisor or representative~~ must be submitted ~~in~~^{on} the form prescribed by the Bourse and must be signed by both the applicant and the approved participant ~~or related company~~ by whom the applicant is employed.

~~Exemption: Notwithstanding the foregoing provisions of the present article, an application for approval need not be filed nor submitted when a person is exempted from seeking approval by the Bourse under article 7401 of the Rules.~~

7404 Qualifications (Full Registration)
(01.04.93, abr. 21.08.02)

7405 (Reserved for future use)

7406 Qualifications (Limited Registration)
(01.04.93, abr. 21.08.02)

7407 Qualifications (Restricted Registration)
(01.04.93, abr. 21.08.02)

7407 General Restrictions applicable to Approved Persons
(01.04.93, 13.09.05, 00.00.00)

Unless prior written consent to the contrary from the Bourse, Aa person approved by the Bourse~~registered representative or investment representative~~ may only transact business for the account of the approved participant~~or related company~~ by whom this person~~he~~ is employed and for the accounts of the approved participant's clients.

All transactions made by an approved person~~registered representative or investment representative~~ must be made on behalf~~in the name~~ of the approved participant ~~or related company~~ by whom the person is

employed, and such approved participant is responsible for all acts and omissions of such ~~approved person registered representative or investment representative~~. Any act or omission of an ~~approved person registered representative or investment representative~~ which would constitute an infraction of any rule, policy or procedure of the Bourse shall be deemed to be an infraction by the approved participant who ~~was employinged this approved personhim at the time such act or omission occurred.~~

7408 Joint Accounts

(13.09.05, 00.00.00)

No approved participant ~~or related company~~ must ~~permit~~approve the opening of a joint account in which ~~an approved person registered representative or investment representative~~ employed by such approved participant ~~or related company~~ has an interest of any kind, whether direct or indirect.

7409 Dealings with Other Firms by Approved Persons

(01.04.93, 13.09.05, 00.00.00)

No ~~person approved by the Bourse registered representative or investment representative~~ must maintain, in his own name or any other name, an account in securities, options or futures contracts over which he has, directly or indirectly, trading authority or control with any approved participant ~~or related company~~ other than the approved participant ~~or related company~~ by which he is employed, without the written consent of his employer as required by article 7454.

7410 Fixed Duties

(02.04.91, 01.04.93, 07.04.03, abr. 00.00.00)

~~Every registered representative or investment representative of an approved participant must devote his entire time during business hours to the business of the approved participant employing him, and must not at any time be engaged in any other business or be employed by any other corporation, firm or individual as officer or for any other duty except if:~~

- ~~1) such corporation or firm is a related company of the approved participant employing the registered representative or the investment representative and the approved participant and related company provide cross guarantees, pursuant to article 3603;~~
- ~~2) such dual employment is not contrary to the provisions of the applicable securities legislation or any regulation.~~

~~— A registered representative or investment representative may serve as a director of a public corporation if the approved participant employing him has, prior to the fact, advised the Bourse.~~

~~In Quebec, unless the dual employment is expressly in relation with one of the exception provided for in the Quebec legislation and regulation, a registered representative or an investment representative of an approved participant is not allowed to carry out other activities than the ones for which he has been approved nor to be employed by any other corporation, firm or individual.~~

7411 Outside Remuneration Prohibited

(06.08.90, 01.04.93, 13.09.05, abr. 00.00.00)

~~—For the purposes of this article "employee" includes, but is not limited to, a registered representative or investment representative, branch manager, assistant or co-branch manager, supervisor of a sub-branch, partner, director and officer.~~

~~—No employee of an approved participant must accept nor permit any associate to accept, directly or indirectly, any remuneration, gratuity, advantage, benefit or any consideration from any person other than the approved participant or its affiliates or its related companies in respect of the activities carried out by such employee within the framework of his employment with the approved participant or its affiliates or its related companies.~~

~~—However, this prohibition does not apply in the case of remuneration which is expressly authorized by the Autorité des marchés financiers or as a result of a decision of the latter.~~

7412 Arrangements with Clients

(01.04.93, 13.09.05, abr. 00.00.00)

~~—Registered representatives or investment representatives are strictly forbidden to:~~

- ~~1) give any guarantee to a client in connection with the account of such client;~~
- ~~2) accept a share in the profits of the account of any client or to have any arrangement with any person whatsoever involving an allocation of profits or losses accruing to any account opened with the approval of the approved participant;~~
- ~~3) except as provided by the provisions of Section 7476—7500 of the present Rule, execute a discretionary order or exercise any discretion in the handling of an account of a client of an approved participant;~~
- ~~4) lead any client to believe that such client will not suffer any loss as a result of opening an account or as a result of any dealings in connection therewith.~~

7413 Notice to the Bourse of Termination of Employment or of Lawsuits and other proceedings

(01.04.93, 13.09.05, 00.00.00)

Every approved participant ~~and related company~~ must ~~immediately~~ give to the Bourse, within the prescribed delays,

- ~~1) notice of the termination of the employment of any person approved by the Bourse ~~registered representative or investment representative~~ and, in the case of a dismissal for cause, a statement of the reasons therefore; ~~and~~~~

2) In addition, any approved participant must provide to the Bourse, as soon as possible, a report of any information it has regarding any lawsuit, investigation or proceedings affecting the approval, licensing or registration of any of its persons approved by the Bourse ~~registered representatives or investment representatives~~ by any regulatory or self-regulatory organization ~~securities commission or comparable body.~~

~~Exemption: Notwithstanding the foregoing provisions of the present article, such approved participant and related company are exempted to give to the Bourse the above mentioned notice and report provided such notice and report have been given to the self-regulatory organization responsible for supervision of~~

~~the approved participant concerned under the agreement establishing the Canadian Investor Protection Fund.~~

7414 Transfers of Approved Persons
(01.04.93, 13.09.05, 00.00.00)

No approved participant ~~or related company~~ must employ a person approved by the Bourse ~~registered representative or investment representative~~ formerly employed by any other approved participant ~~or related company~~ until the Bourse has given its prior approval to such employment. Any application for such consent must be submitted in the form prescribed by the Bourse and must be signed by both the approved person ~~registered representative or investment representative~~ and the approved participant ~~or related company~~ proposing to employ him.

The Bourse will not approve an application for such consent if it is established that the approved participant by which the approved person was previously employed has not transmitted to the Bourse the notice of termination of employment required pursuant to article 7413.

If the period of time between the date of the approved person termination of employment with the approved participant by which this approved person was employed and the date on which this approved person employment with another approved started is six (6) months or more, the Bourse will not approve the application for consent filed pursuant to this article and an application for approval pursuant to article 7403 of this Rule shall be submitted to the Bourse.

~~Exemption: Notwithstanding the foregoing provisions of the present article, no consent or application for approval to the Bourse is required provided consent is sought from and granted by the self-regulatory organization responsible for the supervision of the concerned approved participant under the agreement establishing the Canadian Investor Protection Fund.~~

7415 Suspension or Revocation of Approval of a Person Approved by the Bourse
(01.04.93, 13.09.05, 00.00.00)

If a person approved by the Bourse ~~registered representative or investment representative~~ no longer meets the required qualifications or any other condition or requirement that may be prescribed by the Bourse, the Bourse may suspend or revoke its approval.

In the event of any such suspension or revocation by the Bourse of the approval of an approved person ~~registered representative or investment representative~~ pursuant to this present article or pursuant to ~~of~~ article 4105 of the Rules of the Bourse, ~~and~~ unless otherwise ordered by the Special Committee, the approved participant ~~or related company~~ employing this person ~~him~~ must immediately discontinue such ~~his~~ employment as a person approved by the Bourse and thereafter this person ~~he~~ must not be employed in the same ~~any~~ capacity by any approved participant ~~or related company~~ without the permission of the Special Committee. Any such permission may be revoked at any time by the Special Committee.

The approval by the Bourse of any person shall be automatically revoked when this person, following the termination of this person employment with an approved person, does not reintegrate an employment requiring such an approval with an approved participant within a delay of six (6) months following the date on which this person employment was terminated.

7416 Approved Participant's Responsibility
(01.04.93, 13.09.05, 00.00.00)

Each approved participant ~~and related company~~ must ensure that all persons approved by the Bourse or by any other regulatory or self-regulatory organization ~~registered representatives or investment representatives~~ employed by it comply with the provisions of all Rules and Policies of the Bourse.

7417 Mutual Fund Units Sales Incentives

(19.09.94, 13.09.05, abr. 00.00.00)

- ~~a) No approved participant, affiliate or related person in respect of an approved participant, or partner, director, officer, registered representative or investment representative or employee of such approved participant, affiliate or related person, may accept from any person, directly or indirectly, any non-cash sales incentive in connection with the sale or distribution of mutual fund units.~~
- ~~b) No approved participant, or affiliate or related person in respect of an approved participant, may pay to any partner, director, officer, registered representative, investment representative or employee of such approved participant, affiliate or related person any non-cash sales incentive in connection with the sale or distribution of mutual fund units.~~
- ~~c) Nothing in this article prohibits an approved participant, affiliate or related person in respect of an approved participant or any partner, director, officer, registered representative, investment representative or employee of such approved participant, affiliate or related person from accepting or paying, as the case may be:

 - ~~i) non-cash sales incentives earned or awarded in connection with internal incentive programs of such approved participant for which eligibility is determined with respect to all services and products offered by the approved participant;~~
 - ~~ii) commissions or fees payable in cash and calculated with reference only to particular sales or volumes of sales of mutual fund units;~~
 - ~~iii) service fees or trailing commissions;~~
 - ~~iv) marketing materials; or~~
 - ~~v) reasonable business promotion activities that are undertaken in the normal course of business and take place in the locale where the recipient is employed or resides.~~~~
- ~~d) For the purpose of this article, the term "non-cash sales incentive" includes, without limitation, domestic or foreign trips, goods, services, gratuities, advantages, benefits and any other non-cash consideration.~~
- ~~e) The present article does not apply to an affiliate of an approved participant or a partner, director, officer, registered representative or investment representative or employee of an affiliate where, pursuant to article 3604, the affiliate has been excluded as a related company of the approved participant or exempted from compliance, as a related company, with all or any of the Rules, Policies or rulings of the Bourse.~~

Section 7450 - 7475 Conduct of Accounts

7450 Business Conduct

(01.04.93, 13.09.05, 00.00.00)

All approved participants must at all times adhere to the principles of good business practice in the conduct of their affairs.

The business of approved participants, approved persons or restricted trading permit holders and their dealings amongst themselves and with the public must at all times comply with the standards set forth in the Bourse regulations.

~~All approved participants and all approved persons must comply with Policy C 2 of the Bourse.~~

7451 Disclosure of Conflicts of Interests or Contrary Views

(11.03.85, 11.03.92, 13.09.05, abr. 00.00.00)

~~—An approved person must disclose and discuss with his client any circumstances that may give rise to a conflict of interests with his client and, in particular, any information or opinion held by the approved person, knowledge of which could affect the decision of a client concerning a particular transaction, an investment or an investment strategy.~~

7452 Diligence as to Accounts

17.06.86, 01.08.87, 05.09.89, 15.09.89, 04.12.92, 01.04.93, 02.07.96, 09.03.99, 23.08.02,
21.11.03, 22.01.04, 13.09.05, 00.00.00)

1) Every approved participant must use diligence:

- a) to learn and remain informed of the essential facts relative to every customer and to every order or account accepted;
- b) to ensure that the acceptance of any order for any account is done in accordance with principles of good business practice;
- c) to ensure, subject to paragraphs d), ~~e) and f)~~ hereunder, that the acceptance of any order for any account from a customer is suitable for such customer given his financial situation, his investment knowledge, his investment objectives and his risk tolerance;
- d) to ensure, when recommending to a customer the purchase, sale, exchange or holding of any derivative instrument listed and traded on the Bourse~~security~~, that the recommendation is suitable for such customer given his financial situation, his investment knowledge, his investment objectives and his risk tolerance.

~~However,~~

- ~~e) — an approved participant that has applied for and received approval from the Bourse, pursuant to Policy C 12, is not required, when accepting orders from a customer where no recommendation is provided, to make a determination that the order is suitable for such customer;~~
- ~~f) — the Bourse in its discretion, shall only grant such approval where the Bourse is satisfied that the approved participant will comply with the policies and procedures outlined in Policy C 12 of the Bourse.~~

2) Every approved participant:

- a) ~~must designate~~ appoint, in accordance with Policy C-13 of the Bourse, an ultimate designated person responsible for the supervision and surveillance of the trading activities in derivative instruments listed on the Bourse or, in the case of a branch office, a branch manager reporting directly to an ultimate designated person; and
- b) ~~where necessary to ensure continuous supervision, may appoint~~ one or more alternate designated person to this responsible person.;

The responsible person and the alternate persons do not have to be approved by the Bourse, but approved participants must provide the Bourse with a list of those persons along with all necessary information to allow the Bourse to communicate with them as needed. Approved participants are also required to immediately inform the Bourse when changes are made to this list.

~~who must be approved by the Bourse.~~ The responsible ultimate designated person or, in the case of a branch office, the branch manager is responsible for establishing and maintaining procedures and for supervising trading activities in derivative instruments listed on the Bourse account opening and account activity. This person ~~He~~ must ensure that the handling of each client orders business is within the bounds of ethical conduct, consistent with just and equitable principles of trade and not detrimental to the reputation of the Bourse or the interests or the welfare of the public or the Bourse. This person ~~He~~ must supervise activities relating to the trading of derivative instruments listed on the Bourse securities in accordance with Bourse requirements and policies. In the absence or incapacity of the responsible ultimate designated person, his authority and responsibilities must be assumed by an alternate responsible designated person.

- 3) ~~Notwithstanding paragraph 2) of the present article, an approved participant or a separate business unit of the approved participant is exempt from the requirement that a new account form include the information required with regard to the suitability of transactions where the approved participant or separate business unit of an approved participant does not provide recommendations to any of its customers and has received the approval mentioned in paragraph 1 e) of the present article.~~
- 4) ~~For each new account, there must be a properly completed account application form and, prior to or promptly after the completion of the first transaction for such account, it must be authorized or approved:~~
 - a) ~~by the designated person or his alternate, or~~
 - b) ~~except in the case of discretionary and managed accounts, by the branch manager of the branch office where the account is opened,~~

~~— and such authorization or approval must be indicated on the account application form.~~

- 5) ~~Every approved participant must ensure that his registered representatives and investment representatives and other concerned personnel comply with the code of ethics and general rules of conduct for representatives as stated in the Conduct and Practices Handbook for Securities Industry Professionals published by the Canadian Securities Institute.~~

- ~~6) An approved participant must send prior to the first trade to a client who is a first time purchaser of stripped coupons or of residual debt instruments an information document approved by the securities commission having jurisdiction.~~
- ~~7) a) An approved participant, partner, director, officer or approved person of an approved participant must provide to each retail client a Leverage Risk Disclosure Statement:~~
- ~~i) at the time a new account is opened,~~
 - ~~ii) when a recommendation is made to a retail client to purchase securities using in whole or in part borrowed money,~~
 - ~~iii) when an approved participant, partner, director, officer or approved person of the approved participant becomes aware of a retail client's intent to purchase securities using, in whole or in part, borrowed money.~~
- ~~b) No approved participant, partner, director officer or approved person of the approved participant is required to comply with sub paragraphs a ii) and a iii), if within the six preceding months a Leverage Risk Disclosure Statement has been provided to the retail client.~~
- ~~c) The Leverage Risk Disclosure Statement must be similar to the following:~~
- ~~"Using borrowed money to finance the purchase of securities involves greater risk than using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and to pay interest, as required by its terms, remains the same even if the value of the securities purchased declines."~~
- ~~d) The Leverage Risk Disclosure Statement is not required with respect to margin accounts operated in accordance with the Rules and Policies of the Bourse.~~

7453 Application as to Diligence of Accounts

(01.04.93, 13.09.05, 00.00.00)

1) Corporate Clients

In the case of an margin account carried by an approved participant for a corporation for the purpose of trading in derivative instruments, the approved participant must make sure that the corporation has the right under its charter and by-laws to engage in the intended margin transactions for its own account and that the persons from whom orders and instructions are accepted are duly authorized by the corporation to act on its behalf. It is advisable in each such case for the approved participant accepting the margin account to obtain a copy of the corporate charter, by-laws and authorizations.

Where it is not possible to obtain such documents, a partner, an officer or a director of the approved participant carrying the account must prepare and sign a memorandum for- the files of the approved participant indicating the basis upon which he believes that the corporation may properly engage in the intended margin transactions and that the persons acting for the corporation are duly authorized to do so.

~~In the case of a cash account carried for a corporation, the approved participant must ensure through a partner, an officer or a director that persons entering orders and issuing instructions with respect to the account do so upon the proper authority.~~

2) Nominee Accounts

When a nominee account is carried by an approved participant, its records must contain the name of the principal for whom the nominee is acting and written evidence of the nominee's authority.

7454 Designation of Accounts and Transactions by Employees of Approved Participants (01.04.93, 13.09.05, 00.00.00)

No approved participant must carry an account:

- 1) in the name of a person other than that of the client, except that an account may be designated by a number, a nominee name or other identification provided the approved participant maintains ~~at its principal office in Canada~~ sufficient identification in writing to establish the beneficial owner of the account or the person or persons financially responsible for same. This information must be available at all times upon the request of the Bourse;
- 2) for a partner, officer, director or any employee of another approved participant either jointly or with another or others without the prior written consent of the employer; nor must make a ~~derivative instrument~~ cash or margin transaction or carry an ~~margin~~ account in ~~derivative instruments~~ securities or futures contracts in which any of the above is directly or indirectly interested. A copy of such consent of the employer must be kept in the client's file and duplicate reports and monthly statements must be sent to a partner, officer or director designated in such consent (other than the person for whom the account is carried). This paragraph does not apply to any director who is an outside investor with respect to the approved participant or its holding company and whose investment therein does not contravene Rule Three.

7455 Confirmation and Statement of Account to Client (06.11.89, 01.04.93, 29.10.93, 30.09.94, 02.08.95, 18.02.97, 26.03.03, 13.09.05, abr. 00.00.00)

- ~~1) Subject to paragraph 7), the approved participant must promptly furnish to each client a written confirmation of each transaction in securities. This confirmation must at least provide:~~
 - ~~a) the quantity and description of the securities traded;~~
 - ~~b) the selling or purchase price;~~
 - ~~c) whether the approved participant was acting as principal or agent;~~
 - ~~d) if acting as agent, the name of the approved participant from, or to, or through whom the security was purchased or sold;~~
 - ~~e) the date on which the purchase or sale took place;~~
 - ~~f) the amount of the commission, if any, charged in respect of such purchase or sale;~~

- ~~g) the name of the registered representative or investment representative or other person instructed by the customer to make the purchase or sale;~~
 - ~~h) the name of the exchange, if any, on which the transaction took place;~~
 - ~~i) where the transaction includes non-voting shares, subordinate voting shares or restricted voting shares, these shares must be designated as such on the confirmation and they must not be described as "common";~~
 - ~~j) for transactions on stripped coupons and stripped bonds:

 - ~~i) the yield thereon calculated on a semi-annual basis in a manner consistent with the yield calculation for the debt instrument which has been stripped;~~
 - ~~ii) the yield thereon calculated on an annual basis in a manner consistent with the yield calculation for other debt securities which are commonly regarded as being competitive in the market with such coupons or stripped bonds such as guaranteed investment certificates, bank deposit receipts and other indebtedness for which the term and interest rate are fixed.~~~~
 - ~~k) the fees or other charges, if any, levied by any securities regulatory authority in connection with the trade.~~
- ~~2) For the purpose of subparagraphs 1) d) and g), a person, a company, a registered representative or an investment representative may be identified in a written confirmation by means of a code or symbol if the written confirmation also contains a statement that the name of the person, the company, the registered representative or the investment representative will be furnished to the customer on request.~~
 - ~~3) A copy of all confirmations and all statements of account must be retained by each approved participant for 5 years.~~
 - ~~4) A statement of account must be sent at the end of each month to each client in whose account there have been any transactions recorded (exclusive of entries related to interest and dividends). Additionally, statements must be sent to all clients having open security positions or money balances at the end of each quarter. Quarterly statements must set forth the dollar balance carried forward and security position as of the statement date. Statements must indicate all securities which are segregated or held in safekeeping. In addition, exchange-listed non-voting shares, subordinate voting shares or restricted voting shares must be designated as such on the statement and these shares must not be described as "common".~~
 - ~~5) Every statement of account issued to a client by an approved participant or related company must bear the notation required by paragraph 1 of article 7502.~~
 - ~~6) Every confirmation and every statement of account issued to a client by an approved participant or related company must contain the following notice:

 - ~~— "Clients' accounts are protected by the Canadian Investor Protection Fund within specified limits. A brochure describing the nature and limits of coverage is available upon request."~~~~

~~7) The requirements of the present article may be complied with by delivery of the confirmation of purchase or sale or of a statement of account to the customer by electronic means, provided that the approved participant complies with Policy C-15 and that:~~

- ~~i) the client has authorized, in writing, the approved participant to deliver the confirmation or the statement of account by electronic means;~~
- ~~ii) the electronic transmission procedure has been approved by the Bourse;~~
- ~~iii) the confirmation or the statement of account delivered electronically complies with all other requirements of the present article; and~~
- ~~iv) the electronic transmission system can, if necessary, reproduce a copy of the confirmation or statement of account in printed form.~~

~~— Exemption: Notwithstanding the foregoing provisions of this paragraph, the approved participant is exempt from seeking approval by the Bourse, provided such approval is sought from and granted by the self-regulatory organization responsible for the supervision of the concerned approved participant, under the agreement establishing the Canadian Investor Protection Fund.~~

7456 Conflict of interests

(01.04.93, 13.09.05, 00.00.00)

No approved participant acting as agent for a customer to buy or sell derivative instruments listed on the Bourse securities may be the buyer or seller on his own account or otherwise act in such a manner as to create a conflict between his own interests and those of his client.

Notwithstanding the foregoing, an approved participant acting as a market-maker will be deemed not to act in a manner as to create a conflict of interest.

7457 Transactions Prohibited

(01.04.93, 13.09.05, abr. 00.00.00)

~~No approved participant must be directly or indirectly interested in or associated in business with, or have his or its office directly or indirectly connected by public or private wire or other method or contrivance with, or transact any business directly or indirectly with or for:~~

- ~~1) any organization, firm or individual making a practice of dealing on differences in market quotations;
or~~
- ~~2) any organization, firm or individual engaged in purchasing or selling securities for clients and making a practice of taking the side of the market opposite to the side taken by the clients.~~

7458 Service Fees

(01.07.89, 01.04.93, 13.09.05, abr.00.00.00)

~~— No approved participant must impose on any customer or deduct from the account of any customer any service fee or charge relating to services provided by the approved participant for the administration of that client's account unless prior written notice has been given on the opening of such account or if~~

~~such notice was not given or if the amounts of the fees are changed, notice has been given to the client not less than sixty days prior to the establishment of such charge.~~

~~—Interest charges and commissions are not covered by this provision.~~

7459 Margin Agreements

(01.04.93, 13.09.05, abr. 00.00.00)

~~—Whenever an approved participant carries a margin account for a client, there must be a written agreement between the approved participant and the client dealing with their relationship. Such agreement must cover inter alia any matters that the Special Committee may prescribe and must conform to any requirements as to form and content that the Special Committee may prescribe.~~

~~—Every agreement relating to a margin account between an approved participant and a client must, without limitation as to any other provisions in the present article, contain undertakings by the client covering the following matters and providing that:~~

- ~~1) all transactions are and must be subject to the rules, policies, customs and usages of the Bourse or market and its clearing corporation;~~
- ~~2) the client must at the request of the approved participant give to the approved participant security for the client's indebtedness to the approved participant;~~
- ~~3) if the client does not promptly supply securities or property sold on his order, the approved participant may but shall not be bound to borrow them and the client shall reimburse to the approved participant any loss suffered or expense incurred by the approved participant through such borrowing or client's failure to make delivery;~~
- ~~4) except as otherwise directed in written instructions received from the client, any securities or property held by the approved participant for or on account of the client may, at the discretion of the approved participant, be kept at any of the places where the approved participant has an office;~~
- ~~5) all notices and communications to the client may be effectively given by mailing them by ordinary mail addressed to the client at the client's address as it appears in the approved participant's records.~~

7460 Clients' Indebtedness - Approved Participants' Rights

(01.04.93, 13.09.05, abr. 00.00.00)

~~—Whenever and so often as a client is indebted to an approved participant, all securities and other assets held by such approved participant for or on account of such client represents collateral security for the payment of such indebtedness and such approved participant has the right, in its discretion, subject to the provisions of section 7501-7550, to raise money on or carry such securities in its general loans and to pledge and re-pledge or to loan such securities either separately or together with any security or securities held by such approved participant for or on account of one or more other clients, or otherwise, in such manner and to such amount and for such purpose as it may deem advisable; and if such approved participant deems it necessary for its protection, it has the right in its discretion, to buy in any or all of the securities of which such client's account may be short or, as the case may be, to sell out any or all of the securities held by it for or on account of such client, and, without in any way restricting the foregoing, such approved participant also has the right in every case to recover from such client the amount of his indebtedness to such approved participant or any part thereof remaining unpaid, either with or without~~

~~realization of the whole or any part of the securities held by such approved participant for or on account of such client.~~

~~—Nothing in the present article must prejudicially affect the rights of approved participants under any established usage, custom or course of dealing.~~

7461 Guarantees of Margin Accounts

(01.05.87, 30.09.87, 01.09.92, 13.09.05, abr. 00.00.00)

~~—The margin required in respect of the account of a customer of an approved participant which is guaranteed in accordance with the present article may be reduced to the extent that there is excess margin in the accounts of the guarantor held by the approved participant calculated on an aggregated or consolidated basis.~~

~~—In calculating margin reductions for guaranteed accounts, the following rules must apply:~~

~~a) guarantees in respect of customers' accounts by shareholders, registered representatives or investment representatives or employees of the approved participant must not be accepted, unless paragraph b) is applicable and has been complied with, or in the case of guarantees by shareholders, there is public ownership of the securities held by the shareholder and the shareholder is not an employee, registered representative or investment representative, partner, director or officer of the approved participant or the holder of a major position in respect of the approved participant or its holding company within the meaning of article 1102;~~

~~b) guarantees in respect of customers' accounts by partners, directors or officers of the approved participant must only be accepted on the following basis:~~

~~i) the self regulatory organization having prime audit jurisdiction in Canada over the approved participant must expressly approve the guarantee in writing by providing separate written approval and the release of the guarantee shall only be effective upon receipt of the express approval of the self regulatory organization given in the same manner;~~

~~ii) the guarantor must not be permitted to transfer cash, securities, contracts or any other property from the accounts of the guarantor in respect of which the margin reduction is based without the prior written approval of the self regulatory organization referred to in subparagraph b) i);~~

~~iii) the provisions of paragraph 6 of the notes and instructions to Schedule 4 of the Joint Regulatory Financial Questionnaire and Report, of Policy C-3 of the Bourse must apply to the customer's account regardless of the guarantee and, if the account has been restricted in accordance with these provisions and is subsequently fully margined, no trading must occur in the account until the guarantee is released in accordance with subparagraph b) i) above.~~

~~c) guarantees in respect of accounts of partners, directors, officers, shareholders, registered representatives, investment representatives or employees and given by customers of the approved participant must not be accepted;~~

~~d) paragraphs a), b) and c) do not apply to guarantees given by any of the persons referred to therein in respect of accounts of members of the immediate families of such persons nor to guarantees in respect of the accounts of any of the persons referred to therein by members of their immediate families;~~

- ~~e) in determining the margin deficiency of the account of any client, a guarantee in respect of the account may be accepted for margin purposes unless and until, in connection with the annual audit, the confirmation requirements have not been satisfied in accordance with paragraph 4) A) vii) of article 7165, . If the audit confirmation requirements for an account have not been satisfied, the margin reduction must not be allowed until a confirmation is received or a new guarantee agreement is signed by the customer;~~
- ~~f) a general guarantee in respect of the accounts of a customer which does not specify such accounts must not be accepted and no guarantee or guarantees from one or more customers in respect of more than one account must be accepted unless supported by proper documentation from such customers sufficient to establish the identity and liability of each guarantor and the accounts and customers in respect of which each guarantee is given;~~
- ~~g) a guarantee in respect of an account of a customer must only be accepted for margin if it directly guarantees the customer's obligations under such account, and a guarantee in respect of an account of a customer who in turn, directly or indirectly, provides a guarantee in respect of another account must not be accepted for margin purposes in the latter account;~~
- ~~h) no guarantee must be accepted unless it is enforceable by written agreement, binding upon the guarantor, its successors and assigns and personal legal representatives and containing the following minimum terms:
 - ~~i) the prompt payment on demand of all present and future liabilities of the customer to the approved participant in respect of the identified accounts must be unconditionally guaranteed on an absolute and continuing basis with the guarantor being jointly and severally liable for the obligations of the customer;~~
 - ~~ii) the guarantee may only be terminated upon written notice to the approved participant, provided that such termination must not affect the guarantee of any obligations incurred prior thereto;~~
 - ~~iii) the approved participant must not be bound to demand from or to proceed or exhaust its remedies against the customer or any other person, or any security held to secure payment of the obligations, before making demand or proceeding under the guarantee;~~
 - ~~iv) the liability of the guarantor must not be released, discharged, reduced, limited or otherwise affected by [1] any right of set off, counterclaim, appropriation, application or other demand or right the customer or guarantor may have, [2] any irregularity, defect or informality in any obligation, document or transaction relating to the customer or its accounts, [3] any acts done, omitted, suffered or permitted by the approved participant in connection with the customer, its accounts, the guaranteed obligations or any other guarantees or security held in respect thereof including any renewals, extensions, waivers, releases, amendments, compromises or indulgences agreed to by the approved participant, or [4] the death, incapacity, bankruptcy or other fundamental change of or affecting the customer; provided that in the event the guarantor must be released for any reason from the guarantee, it must remain liable as principal debtor in respect of the obligations which he had guaranteed prior to the release;~~
 - ~~v) the guarantor must waive in favour of the approved participant any notices as to the terms and conditions applicable to the customer's accounts or agreements or dealings between the approved participant and customer, or relating in any way to the status or condition of or~~~~

transactions or changes in the customer's accounts; furthermore, he must agree that the accounts as settled or stated between the approved participant and the customer are conclusive as to the amounts owing, and waive any rights of subrogation until all guaranteed obligations are paid in full;

- vi) ~~all securities, moneys, futures contracts and options, foreign exchange contracts and other property held or carried by the approved participant for the guarantor must be pledged or a security interest granted therein to secure the payment of the guaranteed obligations and the approved participant must have full ability to deal with such assets at any time, before or after demand under the guarantee, to satisfy such payment.~~

7461A Hedge Agreement

(30.07.97, 13.09.05, abr. 00.00.00)

- 1) ~~Notwithstanding article 7461 and prior to reducing the margin requirement as provided by this article, an approved participant may hedge:

 - a) ~~any long securities positions, other than options, futures contracts or foreign exchange contracts, held in the account of a guarantor that guarantees the account of a client of an approved participant in accordance with article 7461 with any short securities positions, other than options, futures contracts and foreign exchange contract, in that client account; and~~
 - b) ~~any long security position convertible, including warrants, options, futures contracts, rights, shares, instalment receipts or other securities pursuant to their terms, which allow the holder to acquire the underlying securities, held in the account of a guarantor that guarantees a client account with any short positions in the underlying securities held in that client's account, provided that the convertible securities held in the guarantor's account are readily convertible into related underlying securities held in that client's account and the number of underlying securities available for conversion purposes be equal to or greater than the number of securities sold short.~~~~
- 2) ~~No hedge must be accepted for the purpose of the present article unless the approved participant obtains from the guarantor a written hedge agreement, in a form acceptable to the Bourse, that:

 - a) ~~authorizes the approved participant to use any or all securities, other than options, futures contracts or foreign exchange contracts held in long positions in the guarantor's account to hedge any or all short positions in the guaranteed client account for the purposes of eliminating the margin required on such securities in the client's account;~~
 - b) ~~upon the sale of any long securities positions that hedges a short position and that creates a margin deficiency in the guaranteed account, the guarantor agrees that the approved participant may restrict the guarantor's ability to withdraw any cash or securities from his account or otherwise restrict his ability to enter into transactions in that account until such deficiency is rectified; and~~
 - c) ~~the guarantor agrees that the terms of the hedge agreement must remain in effect as long as any hedge positions between the two accounts remain in effect.~~~~

7462 Account transfers

(01.02.91, 01.04.93, 02.06.95, 06.10.99, 13.09.05, abr. 00.00.00)

~~1) For the purposes of this article:~~

- ~~— "CDS" means The Canadian Depository for Securities Limited;~~
- ~~— "partial account" means, in respect of an account transfer, any assets and balances in the account of a client to be transferred from a delivering approved participant to a receiving approved participant which comprise less than the total assets and balances held by the delivering approved participant for that account;~~
- ~~— "recognized depository" means an acceptable clearing corporation or an acceptable securities location, as defined in the General notes and Definitions of the Joint Regulatory Financial Questionnaire and Report of Policy C-3 of the Bourse;~~
- ~~— "delivering approved participant" means, in respect of an account transfer, the approved participant from which the account of the client is to be transferred;~~
- ~~— "receiving approved participant" means, in respect of an account transfer, the approved participant to which the account of the client is to be transferred;~~
- ~~— "account transfer" means the full transfer in its entirety of an account of a client with an approved participant to another approved participant at the request or with the authorization of the client;~~

~~2) Transfer~~

- ~~— Each account transfer must be effected wherever possible through the facilities or services of a recognized depository. The procedures to be followed for full or partial account transfers must be as set out in the present article.~~
- ~~— For the purposes of the present article, written communications by approved participants with other approved participants including, without limitation, delivery of request for transfer forms and asset listings must be transmitted electronically through the account transfer facility of CDS, unless both approved participants agree otherwise. Each approved participant must bear its own costs in respect of the receipt of delivery of such communications. Each approved participant is responsible for the selection, implementation and maintenance of appropriate security products, tools and procedures in order to protect any communications sent by electronic delivery pursuant to the present article.~~
- ~~— Each approved participant acknowledges that the communications that it sends by electronic delivery pursuant to the present article will be relied on by the other receiving approved participants and such approved participant sending a communication must indemnify and save harmless any such other receiving approved participants against and from any claims, losses, damages, liabilities or expenses suffered by such approved participants and arising as a result of reliance on any such communication which is unauthorized, inaccurate or incomplete.~~

~~3) Authorization~~

- ~~— Each approved participant which receives a request from a client to accept an account transfer must provide the client with the authorization to transfer account form approved by the Bourse.~~

~~— On return of the authorization to transfer account form, duly executed by the client, to the office designated by the receiving approved participant, the latter must promptly send a request for transfer form (as approved by the Bourse) by electronic delivery through the account transfer facility of CDS providing the prescribed information required by CDS. The original of the authorization to transfer account form must remain on file with the receiving approved participant and will be available at any time upon request.~~

~~— In addition, the receiving approved participant must ensure that such forms or documents as may be required in order to transfer trust accounts, provincial stock savings plan or registered retirement savings plan accounts or other accounts which cannot be transferred without such other forms or documents are duly completed and available on the same day as the electronic delivery of the request for transfer form.~~

~~4) Response to Request for Transfer~~

~~— On electronic receipt of the request for transfer, the delivering approved participant must, either deliver electronically to the receiving approved participant the asset listing of the client account being transferred by the return date as specified, or reject the request for transfer if the client account information is unknown to the delivering approved participant, or is incomplete or incorrect. The return date must be no later than two clearing days after the date of electronic receipt at the delivering approved participant.~~

~~— If, for any reason, an impediment exists which prevents the requested transfer of an asset for an account from the delivering approved participant to the receiving approved participant, the delivering approved participant must forthwith notify the receiving approved participant electronically, identifying such asset and the reason for the inability to deliver. The receiving approved participant must obtain instructions or directions from the client with regard to that asset and deliver them electronically to the delivering approved participant.~~

~~— Transfer of the balance of assets belonging to the client must be completed in accordance with the present article.~~

~~5) Settlement~~

~~— Within one (1) clearing day after the return date specified on the request for transfer, the delivering approved participant must input, or cause the account transfer facility at CDS to implement automatically, the set up for settlement of those assets which are to be settled through CDS. All other assets must be delivered using the standard industry practice for such assets.~~

~~— No approved participant must accept transfer of an account from another approved participant which is not margined in accordance with regulatory requirements unless at the time of the transfer the receiving approved participant has in its possession sufficient available funds or collateral for the credit of the client to cover the deficiency in his account.~~

~~— Any assets which cannot be transferred through recognized depositories must be settled over the counter or by such other appropriate means as may be agreed between the receiving approved participant and the delivering approved participant, within the same time limits specified above for assets which can be transferred through a depository.~~

~~6) Failure to settle~~

~~— If the delivering approved participant fails to settle the transfer of any assets in the account of a client within ten (10) clearing days of the receipt of the request for transfer form by electronic delivery, the receiving approved participant may complete the account transfer by, at its choice:~~

- ~~a) — buying the unsettled position;~~
- ~~b) — establishing a loan of the assets from the receiving approved participant to the delivering approved participant through a recognized depository, which loan must be marked to market and the relevant assets must be deemed to have been delivered to the receiving approved participant for the purpose of settling the account transfer; or~~
- ~~c) — making such other mutually agreed arrangements with the delivering approved participant such that the account transfer can be deemed to have been completed for the client.~~

~~7) Non-certificated Mutual Funds~~

~~— Assets in an account to be transferred in the form of non-certificated mutual fund securities must be considered transferred upon delivery by the delivering approved participant to the receiving approved participant of a duly completed Broker to Broker Mutual Fund Transfer form approved by the Bourse and a properly completed and endorsed power of attorney, or by entry of transfer instructions in the electronic account transfer facility of Mutual Funds Clearing and Settlement Services Inc.~~

~~8) Miscellaneous Balances~~

~~— Balances comprising interest or dividend receipts must be settled promptly between a delivering approved participant and receiving approved participant and the failure to so settle such balances for any reason must not constitute grounds for not complying with the account transfer procedures contained in the present article.~~

~~9) Capital Charges and Margin Required~~

~~— Delivering approved participants must not be subject to capital charges or margin requirements in respect of assets which are in the process of being transferred in accordance with the present article. The receiving approved participant is required to margin all assets or balances which are in the process of being transferred in accordance with the present article.~~

~~10) Fees and Charges~~

~~— The delivering approved participant is entitled to deduct any fees or charges on accounts to be transferred prior to or at the time of transfer in accordance with that approved participant's current published schedule for such fees and charges.~~

~~11) Exemptions~~

~~— The Bourse may exempt an approved participant from the requirements of the present article where it is satisfied that to do so would not be prejudicial to the interests of the approved participant, its clients or the public and, in granting such exemption, the Bourse may impose such terms and conditions, if any, it may consider necessary.~~

7463 (Reserved for future use)**7464 Discretionary Cash Settlement Rule**(01.04.93, 13.09.05, abr. 00.00.00)

~~—The Bourse may, whenever it determines that market conditions so warrant, prescribe such other terms and conditions as it deems appropriate relating to the settlement of transactions in specific securities trading either on or off an exchange.~~

~~—Without in any way limiting the generality of the foregoing paragraph, the following are examples of such other terms and conditions:~~

- ~~a) a provision that all delivery against payment and receipt against payment transactions must be settled by a specified time or be required to be margined on a 100% margin basis;~~
- ~~b) a provision that new transactions be subject to advance payment in full or receipt of securities to be sold.~~

7465 R.R.S.P.s Administered by Approved Participants and Other Similar Plans(01.04.93, 02.08.94, 13.09.05, abr. 00.00.00)

~~Approved participants are authorized to administer self-directed Registered Retirement Savings Plans (R.R.S.P.) and other similar plans if the following conditions are met:~~

- ~~a) i) The trustee is an acceptable institution as defined in the Joint Regulatory Financial Questionnaire and Report of Policy C-3 of the Bourse;~~
 - ~~ii) Primary liability to plan holders for any breach of trust remains that of the authorized trustee.~~
- ~~b) Physical control over plan's securities on hand is maintained by designated employees of the approved participant.~~
- ~~c) Subject to any additional requirements of the trustee:

 - ~~i) securities held by an approved participant for the trustee on behalf of its individual annuitants must be held in safekeeping for the trustee. Such securities may only be released on instructions of the trustee or the annuitant;~~
 - ~~ii) while such securities are held in safekeeping for the trustee within such safekeeping system, they may be held in bulk segregation on behalf of its individual annuitants and identified as being so held in the approved participant's security position record, customers' ledger and the statement of account provided to the annuitant and to the trustee. Where an approved participant is a member of a recognized depository, the use of that depository for lodging of securities held for plan accounts is recommended;~~
 - ~~iii) a revision of the segregation requirements must be done at least twice each week and the approved participant must act immediately to make up any segregation deficiency.~~~~
- ~~d) The means, be it numerical code or otherwise, by which annuitants' accounts for self-directed plans are identified must be clearly distinguishable from the manner of identifying other types of accounts~~

~~and each account itself must be identified as being that of the trustee for the annuitants as beneficial owner, each being named. All such accounts must be kept in a separate section of the customer's account record specifically reserved for such plan accounts.~~

- ~~e) All cash received by the approved participant for and on behalf of plan accounts must be transferred to the trustee by the next business day except that cash required or received in connection with the settlement of securities transactions must be transferred from the approved participant to the trustee or from the trustee to the approved participant as the case may be, on the settlement or value date specified in the confirmation of trade.~~
- ~~f) The agreement between the approved participant and the trustee must incorporate the protection afforded to annuitants by sub paragraph c) i) above and prohibit the approved participant from using assets from the trustee's plan account for the annuitants to pay claims the approved participant may have against that particular annuitant's non plan account other than claims in respect of administration fees or administration expenses relating to the plan account.~~
- ~~g) The approved participant must advise each annuitant:~~
- ~~i) that there are tax consequences pursuant to the income tax acts (Canada and Quebec) on the acquisition or holding by the account of non-qualified investments or excess foreign property; and~~
 - ~~ii) on a monthly basis, if non-qualified investments or excess foreign properties have been acquired for the account or if previously acquired qualified investments have become unqualified.~~
- ~~h) All of the regulatory authorities under which the trustee operates must have acknowledged that they have received all legal opinions, tax rulings or other documentation the authorities have requested from the trustee.~~
- ~~i) A report must be prepared by the approved participant on the prescribed form and on a monthly basis identifying, by security, the quantity required to be segregated but which is not yet segregated. Such report must be filed with the Bourse within ten business days following the end of each month.~~
- ~~j) The foregoing report will not be required from an approved participant where the Bourse is satisfied that the system and procedures pertaining to the operation of the plan are in accordance with the requirements of the present article.~~

~~Notwithstanding the provisions of the present article, approved participants are exempted from obtaining approval of the Bourse provided approval is granted by the self-regulatory organization responsible for the supervision of the firm under the agreement establishing the Canadian Investor Protection Fund.~~

7466 Record of Complaints Record and Files

(01.04.93, 13.09.05, 00.00.00)

- 1) Each approved participant must keep an up-to-date record ~~in a central place~~ of all written complaints received by the approved participant resulting from the conduct of the approved participant or of one of its approved persons that relate in connection with any way to orders or transactions in derivative instruments listed on the Bourse ~~the conduct, business or affairs of the approved participant or of a director, partner, officer or employee of the approved participant.~~

- 2) ~~A eComplaint files must be retained for seven (7) years. Furthermore, approved participants must maintain an up-to-date record of all complaints and subsequent documentation received relating to the conduct of the approved participant or of one of its approved persons in connection with orders or transactions in derivative instruments listed on the Bourse. Such record and any reply to the complaint must be retained for a period of seven (7) yearstwenty-four months from the date of receipt of the complaint by the approved participant and must be made available to the Bourse upon request.~~
- 3) The complaint record must, at a minimum, contain the following information:
- i) the complainant's name;
 - ii) the date of complaint;
 - iii) the name of the individual who is the subject of the complaint;
 - iv) the derivative instruments which are the subject of the complaint;
 - v) the materials reviewed in the investigation made by the approved participant;
 - vi) if applicable, the name and title of the persons who were interviewed by the approved participant in the course of its investigation of the complaint and the date of such interviews;
and
 - vii) the date and conclusions of the decision rendered in connection with the complaint.

7467 Keeping Records of Orders

(08.09.89, 01.04.93, 02.07.96, 13.09.05, 00.00.00)

- ~~1) A record must be kept by each approved participant in its office of each order received for the purchase or sale of listed and unlisted securities.~~
- ~~2) The record of each order filled must show the person receiving the order, the time the order is entered, the price paid or received, to the extent feasible the time of execution, the broker from or to or through whom the security was bought or sold and must be retained for seven (7) years.~~
- 1) Every approved participant must maintain books and records necessary to record properly its trading activities in derivative instruments listed on the Bourse, including, without limitation:
- a) Records containing an itemized daily record of all orders and trades in derivative instruments. Such records must contain the following information for each such order or transaction:
- In the case of trades in all derivative instruments,
- i) the identity of the client for whom or the account for which the order was received;
 - ii) the date and time on which the order was received;
 - iii) the identity of the person who received the order;
 - iv) the class and designation of the derivative instrument,
 - v) the expiry or delivery month and year of the derivative instrument,
 - vi) the date and time on which the order was entered into the electronic trading system of the Bourse;

vii) whether it is an opening or closing transactions

viii) the terms and conditions of the order, of any instruction and of any modification or cancellation thereof,

ix) here the order is entered pursuant to the exercise of discretionary power of an approved participant, an indication to that effect,

x) where the order relates to a fully disclosed introduced account or a fully disclosed omnibus account, the component accounts within the introduced or omnibus account on whose behalf the order is to be executed, and the intended allocation among the component accounts once the order has been executed;

xi) where the order relates to managed accounts, the component accounts on whose behalf the order is to be executed, and the intended allocation among these component accounts once the order has been executed;

xii) where the order or instruction is placed by an individual other than:

A) the person in whose name the account is operated, or

B) an individual duly authorized to place orders or instructions on behalf of a customer that is a company,

the name, the number or the designation of the individual placing the order or instruction;

xiii) the date and time on which the order was modified, executed or cancelled. If executed in more than one transaction, the date and time of each transaction executed to complete the order;

xiv) the number of derivative instruments bought or sold. If the order has been executed in more than one transaction, the number of derivative instruments bought or sold for each transaction;

xv) if the person who executed the order is not the person who received it, the identity of such person;

xvi) if the order was executed by another approved participant acting as an executing broker for the approved participant, the identity of such other approved participant.

In the case of futures contracts,

xvii) the price at which the futures contract was entered into.

In the case of options contracts,

xviii) the premium;

xix) the type of option (put or call);

~~xx) the strike price.~~

~~b) Derivative instruments records showing separately for each derivative instrument as of the trade date all long positions or short positions in such derivative instrument carried for the approved participant's account or for the account of customers and, in all cases, the name or designation of the account in which each position is carried.~~

~~3) No order can be executed on an exchange until it has been stamped as above in the office of the approved participant who receives the order.~~

~~24) All records of filled and unfilled orders, executed transactions and carried positions must be retained for a period of The record of each order which remains unfilled must show the person receiving the order and the time of receipt and must be retained for seven (7) years.~~

~~35) The Special Committee may grant exemptions from all or any part of the above requirements.~~

7468 Forwarding Documents Concerning Securities Belonging to Non-Registered Clients
(29.07.88, 01.04.93, 13.09.05, abr. 00.00.00)

~~1) Whenever an approved participant is provided with sufficient copies of any take-over bid circular, issuer bid circular, directors' or officers' circular or other similar and relevant material in respect of or relating to securities registered in the approved participant's name, or in the name of a depository or other intermediary and credited to the approved participant's account, but in respect of which there is an underlying owner; and~~

~~2) where the issuer, or other sender of material, has agreed to bear the reasonable costs of so doing,~~

~~the approved participant must forthwith send or deliver to each such underlying owner a copy of such material.~~

~~NOTE: Approved participants are reminded that their responsibilities with respect to providing proxies to clients corresponding to securities held in their accounts, and other matters relating to shareholder communication, are found in the Securities Act and more particularly in National Policy No. 54-101.~~

7469 Cash and Securities Loan Transactions
(01.09.88, 15.03.93, 01.04.93, 13.09.05, abr. 00.00.00)

~~1) For the purposes of the present article:~~

~~a) "overnight cash loan agreements" means verbal or written agreements whereby an approved participant deposits cash with another approved participant for a period not exceeding two (2) business days.~~

~~b) "Schedule I Bank" means a Schedule I Bank pursuant to the Bank Act (Canada) that has a capital and reserves position of one billion dollars (\$1,000,000,000) or more at the time of the securities loan transaction.~~

~~2) Written Agreements:~~

~~—Cash and securities loan agreements, with the exception of "overnight cash loan agreements", must be in writing, and must, at a minimum, provide:~~

- ~~a) for the rights of either party, in addition to any other remedies provided in the agreement, for which each party may otherwise have under applicable law, to retain the securities delivered to it by the other party pursuant to the loan in the event of default by the other party;~~
- ~~b) for events of default;~~
- ~~c) for the treatment of the value of securities or collateral held by the non defaulting party that is in excess of the amount owed by the defaulting party;~~
- ~~d) either:

 - ~~ii) for provisions enabling the parties to set off their debts; or~~
 - ~~ii) [1] for provisions enabling the parties to effect a secured loan and, in particular, for the continuous segregation by the lender of securities held by it as collateral for the loan; and~~
 - ~~[2] if the parties intend to effect a secured loan, where there is available to the lender more than one method of perfecting its security interest in the collateral, the lender must perfect such interest in a manner that provides it with the higher priority in a default situation; and~~~~
- ~~e) if the parties intend to rely on set off or effect a secured loan, for the securities borrowed and the securities loaned to be, pursuant to applicable legislation, free and clear of any trading restrictions and duly endorsed for transfer.~~

~~3) Failure to fulfill the conditions of paragraph 2) will result in:~~

- ~~a) the cash or market value of the collateral given by the borrower to the lender being deducted from the net allowable assets of the borrower; and~~
- ~~b) the cash or market value of the loan given by the lender to the borrower being deducted from the net allowable assets of the lender.~~

~~—except where the counterparty is an acceptable institution, in which case no margin is required.~~

~~4) Buy in (liquidating transactions):~~

~~—Buy in must be commenced within two (2) business days of the date of the buy in notice.~~

~~5) Accounting system:~~

~~—Record keeping requirements provided for in the relevant provincial securities legislation, regulations and policies must be applied with respect to record keeping and control for all securities borrowed and loaned.~~

- ~~6) Where the cash or securities loan transaction is between regulated entities, the following rules apply;~~
- ~~a) the written agreement prescribed in paragraph (2) above must also contain an acknowledgement by the parties that either has the right, upon notice, to call for any shortfall in the difference between the collateral and the borrowed securities at any time;~~
 - ~~b) letters of credit issued by Schedule I Banks may be used as collateral;~~
 - ~~e) except where the cash or securities loan is processed through an acceptable clearing corporation, confirmations and month end statements must be issued;~~
- ~~7) Where the cash or securities loan transaction is between an approved participant and an acceptable institution or an acceptable counterparty, the following rules apply:~~
- ~~a) confirmations and month end statements must be issued;~~
 - ~~b) letters of credit issued by Schedule I Banks may be used as collateral.~~
- ~~8) Where cash or securities loan transaction is between an approved participant and a party other than those mentioned in paragraphs 6) or 7), the following rules apply:~~
- ~~a) marking to market:

 - ~~— borrowed securities and collateral must be marked to market daily on a one for one basis;~~~~
 - ~~b) loan accounts:

 - ~~— loan accounts must be maintained separately from the securities trading accounts maintained by the approved participant;~~~~
 - ~~c) collateral:

 - ~~i) the securities hypothecated as collateral must be held by the approved participant on a fully segregated basis or must be held by a custodian that is an acceptable institution or an acceptable counterparty pursuant to an escrow agreement, acceptable to the Bourse, between the approved participant and the institution or the counterparty;~~
 - ~~ii) subject to clause (iii), securities pledged as hypothecation must have a margin rate of 5% or less; and~~
 - ~~iii) preferred shares convertible into the common shares borrowed or debt securities convertible into the common shares borrowed may be hypothecated against common stock of the issuer;~~~~
 - ~~d) confirmations and month end statements:

 - ~~i) confirmations and month end statements must be issued; and~~
 - ~~ii) loans of securities from a retail client must be recorded separately from retail client's trading accounts.~~~~

~~9) Where in a money or securities loan transaction between an acceptable institution, an acceptable counterparty or a regulated entity, a letter of credit issued by a Schedule I bank is used as hypothecation in compliance with subparagraphs 6 b) and 7 b) of this article, no capital charge will be imposed upon the approved participant for any excess of the value of the letter of credit deposited as hypothecation which is in excess of the market value of the borrowed securities.~~

7470 Introducing/carrying broker agreements

(26.07.88, 01.04.93, 01.07.97, 05.07.00, 07.05.02, 01.04.03, 13.09.05, abr. 00.00.00)

1) General

~~a) An approved participant may, with the approval of the vice president of the Regulatory Division of the Bourse and if otherwise in compliance with the terms of the present article and any requirements of the regulatory authority in the jurisdiction of the introducing broker, carry accounts of clients which have been introduced to it by:~~

~~i) another approved participant of the Bourse; or~~

~~ii) a member or a participating organization of a self regulatory organization which is a participant in the Canadian Investor Protection Fund.~~

~~b) An approved participant must not introduce accounts to any person other than:~~

~~i) another approved participant of the Bourse; or~~

~~ii) a member or a participating organization of a self regulatory organization which is a participant in the Canadian Investor Protection Fund.~~

~~c) For the purposes of the present article, the approved participant, the member or the participating organization of a self regulatory organization which is a participant in the Canadian Investor Protection Fund that carries clients accounts, which includes at a minimum the clearing and settlement of trades, the maintenance of books and records of clients transactions and the custody of some or all clients funds and securities, will be designated as the "carrying broker".~~

~~— The approved participant of the Bourse, the member or the participating organization of a self regulatory organization which is a participant in the Canadian Investor Protection Fund who introduces client accounts to the carrying broker will be designated as the "introducing broker".~~

~~— Furthermore, agreements whereby employees of an approved participant's affiliated Canadian financial institution handle securities clearing and settlement, maintain records and perform operational functions on behalf of the approved participant must not be considered as introducing/carrying agreements, for the purposes of the present article, provided that pursuant to the agreement the employees of the approved participant's Canadian financial institution affiliate handle custodial functions on a segregated basis, in accordance with the segregation provisions of the Rules and Policies of the Bourse.~~

~~— For the purposes of paragraph 1 c), "Canadian financial institution" means a Schedule I or Schedule II bank pursuant to the *Bank Act* (Canada), an insurance company governed by federal~~

~~or provincial insurance legislation and a loan or trust company governed by federal or provincial loan and trust company legislation.~~

- ~~d) i) Approved participants who enter into an introducing/carrying broker agreement must enter into a written contract in a form prescribed from time to time by the vice president of the Regulatory Division of the Bourse and each such agreement must come into effect only after the vice president of the Regulatory Division of the Bourse has given a written confirmation that the contract is acceptable.~~
- ~~ii) An introducing broker that is party to an introducing broker Type 1 or Type 2 agreement cannot enter into more than one introducing/carrying broker agreement other than one additional introducing/carrying broker agreement exclusively for trading in futures contracts and options on futures contracts.~~
- ~~iii) An introducing broker that is party to an introducing Type 1 or Type 2 agreement may not fully service any part of its securities related activities, other than fully servicing trading in futures contracts and options on futures contracts.~~
- ~~iv) An introducing broker that is party to an introducing Type 1 agreement must carry out trade settlement and custody of securities related to its principal trading through the facilities of its carrying broker.~~
- ~~v) An introducing broker that is party to an introducing Type 3 or Type 4 agreement may enter into more than one introducing/carrying broker agreement and may also fully service part of its securities related activities.~~
- ~~e) Each introducing or carrying broker that is a party to an introducing and carrying broker relationship and that is not an approved participant of the Bourse, as well as each partner, director, officer, shareholder and employee of such broker, must comply with all the Rules and Policies of the Bourse.~~
- ~~f) Each introducing/carrying broker agreement must be classified as an Introducing Broker Type 1, Type 2, Type 3 or Type 4 agreement and must meet the requirements of such agreement, as set out in the present article.~~
- ~~g) The Bourse may, in its discretion, exempt an approved participant from the application of any part of the present article.~~

~~2) Introducing Broker Type 1 Agreement~~

~~For an introducing/carrying broker agreement to be considered an Introducing Broker Type 1 agreement the parties must execute an agreement in the form prescribed and approved by the vice president of the Regulatory Division of the Bourse and the agreement must meet the following criteria:~~

- ~~a) Minimum capital requirement~~

~~An introducing broker that is a party to an Introducing Broker Type 1 agreement must maintain at all times a minimum capital of \$75,000 for the purposes of calculating its risk adjusted capital.~~

b) ~~Margin arising from principal and agency business~~

- i) ~~The carrying broker must calculate and maintain the margin for any agency business that it carries on behalf of the introducing broker, in accordance with the relevant margin requirements of the Rules and Policies of the Bourse.~~
- ii) ~~The introducing broker must calculate and maintain the margin for any principal business that the carrying broker carries on its behalf, in accordance with the relevant margin requirements of the Bourse. The carrying broker must provide for margin for any principal business which it carries on behalf of the introducing broker, to the extent of any equity deficiency in the introducing broker's trading account.~~

e) ~~Margin offsets permitted~~

~~The carrying broker must be permitted to offset any margin required to be maintained, as determined in subparagraph b), against the loan value of any deposits made by the introducing broker to the extent of the excess risk adjusted capital of the introducing broker. The carrying broker must notify the introducing broker of all such offsets at the time they are made. Upon receiving notification of such offset, the introducing broker must reclassify that portion of the security deposit, which relates to the margin offset, as a non allowable asset on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report.~~

d) ~~Reporting of clients balances~~

~~In calculating the risk adjusted capital required pursuant to article 7006 and to the Joint Regulatory Financial Questionnaire and Report of Policy C-3 of the Bourse, the carrying broker must, and the introducing broker must not, report all accounts of clients introduced to the carrying broker by the introducing broker on the carrying broker's Joint Regulatory Financial Questionnaire and Report or Monthly Financial Report.~~

e) ~~Net clients balances and funding deployment~~

~~In relation to the accounts of clients introduced to the carrying broker by the introducing broker, the carrying broker must be responsible for meeting any financing requirements of such clients accounts.~~

f) ~~Security deposit~~

~~Any deposit provided to the carrying broker by the introducing broker pursuant to the terms of the agreement between them must be segregated by the carrying broker and, in the case of a cash deposit, such deposit must be held by the carrying broker in a separate bank account in trust for the introducing broker.~~

~~The security deposit provided by the introducing broker to the carrying broker must be reported by the introducing broker as an allowable asset on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report. However, any portion of the security deposit that may be impaired in value due to the fact that the carrying broker carries clients accounts having unsecured debit balances on behalf of the introducing broker, must be reclassified as a non~~

~~allowable asset on the Joint Regulatory Financial Questionnaire and Report or the Monthly Financial Report of the introducing broker.~~

~~g) Concentration calculation~~

~~— For the purposes of the concentration calculations required in Schedules 9 and 12 of the Joint Regulatory Financial Questionnaire and Report, the carrying broker must include, and the introducing broker must not include, all clients positions which the carrying broker maintains on behalf of the introducing broker in the carrying broker's calculation.~~

~~h) Segregation of clients securities~~

~~— The carrying broker must be responsible for segregating all securities which it holds for clients which have been introduced to it by the introducing broker, in accordance with the segregation requirements of the Rules and Policies of the Bourse.~~

~~i) Free credit balances segregation~~

~~— The carrying broker must be responsible for the compliance with the free credit balances segregation requirements of the Rules and Policies of the Bourse in relation to accounts of clients which have been introduced to it by the introducing broker.~~

~~j) Insurance~~

~~i) The introducing broker must maintain a minimum insurance of \$200,000, for the purposes of article 7076.~~

~~ii) The introducing broker and the carrying broker must each be responsible for providing Financial Institution Bond Clause (A) coverage for fidelity insurance, pursuant to article 7076.~~

~~iii) The carrying broker must include all accounts which have been introduced to it by the introducing broker in its calculation of the asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E), pursuant to article 7076.~~

~~iv) The introducing broker must include all accounts which have been introduced to the carrying broker in its calculation of the asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E), pursuant to article 7076.~~

~~v) Both the introducing broker and the carrying broker must maintain adequate mail insurance, as required pursuant to article 7076.~~

~~k) Required disclosure when opening client accounts~~

~~— At the time of opening of each client account, the introducing broker must, in a form satisfactory to the vice president of the Regulatory Division of the Bourse, obtain from the client an acknowledgement that the introducing broker has advised him of the introducing broker's relationship to the carrying broker and of the relationship between the client and the carrying broker.~~

~~l) — Contracts, statements and correspondence~~

~~— The name and role of each of the introducing broker and carrying broker must be shown on all contracts, statements, correspondence and other documentation. Both the introducing broker and the carrying broker must be parties to any margin agreements and guarantee documentation with clients that the carrying broker carries.~~

~~m) — Clients introduced to the carrying broker~~

~~— Each client introduced to the carrying broker by the introducing broker must be considered a client of the carrying broker for the purposes of complying with the Rules and Policies of the Bourse.~~

~~n) — Responsibility for compliance with all non-financial requirements~~

~~— Unless otherwise specified in the present paragraph 2), the introducing broker and the carrying broker must be jointly and severally responsible for compliance with all non-financial requirements of the Rules and Policies of the Bourse for each account introduced to the carrying broker by the introducing broker.~~

~~o) — Cash transactions~~

~~— The introducing broker may facilitate cash transactions on behalf of clients that the carrying broker carries, only with the approval of the carrying broker and through the use of an account in the name of the carrying broker.~~

~~p) — Reporting of principal positions~~

~~— The introducing broker must report all principal positions, introduced to the carrying broker by the introducing broker, as inventory on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report. The carrying broker must report all principal positions, which have been introduced to it by the introducing broker, as a client account on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report.~~

~~3) — Introducing Broker Type 2 Agreement~~

~~— For an introducing/carrying broker agreement to be considered an Introducing Broker Type 2 agreement the parties must execute an agreement in the form prescribed and approved by the vice-president of the Regulatory Division of the Bourse and the agreement must meet the following criteria:~~

~~a) — Minimum capital requirement~~

~~— An introducing broker that is a party to an Introducing Broker Type 2 agreement must maintain at all times a minimum capital of \$250,000 for the purposes of calculating its risk-adjusted capital.~~

~~b) — Margin arising from principal and agency business:~~

~~i) The carrying broker must calculate and maintain the margin for any agency business that it carries on behalf of the introducing broker, in accordance with the relevant margin requirements of the Rules and Policies of the Bourse.~~

~~ii) The introducing broker must calculate and maintain the margin for any principal business that the carrying broker carries on its behalf, in accordance with the relevant margin requirements of the Bourse. The carrying broker must provide for margin for any principal business which it carries on behalf of the introducing broker, to the extent of any equity deficiency in the introducing brokers' trading account.~~

~~c) Margin offsets permitted~~

~~— The carrying broker must be permitted to offset any margin required to be maintained, as determined in subparagraph b), against the loan value of any deposits made by the introducing broker to the extent of the excess risk adjusted capital of the introducing broker. The carrying broker must notify the introducing broker of all such offsets at the time they are made. Upon receiving notification of such offset, the introducing broker must reclassify that portion of the security deposit, which relates to the margin offset, as a non allowable asset on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report.~~

~~d) Reporting of clients balances~~

~~— In calculating the risk adjusted capital required pursuant to article 7006 and to the Joint Regulatory Financial Questionnaire and Report, the carrying broker must, and the introducing broker must not, report all accounts of clients introduced to the carrying broker by the introducing broker on the carrying broker's Joint Regulatory Financial Questionnaire and Report or Monthly Financial Report.~~

~~e) Net clients balances and funding deployment~~

~~— In relation to the accounts of clients introduced to the carrying broker by the introducing broker, the carrying broker must be responsible for meeting any financing requirements of such clients accounts.~~

~~f) Security deposit~~

~~— Any deposit provided to the carrying broker by the introducing broker pursuant to the terms of the agreement between them must be segregated by the carrying broker and, in the case of a cash deposit, such deposit must be held by the carrying broker in a separate bank account in trust for the introducing broker.~~

~~— The security deposit provided by the introducing broker to the carrying broker must be reported by the introducing broker as an allowable asset on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report. However, any portion of the security deposit, which may be impaired in value due to the fact that the carrying broker carries clients accounts having unsecured debit balances on behalf of the introducing broker, must be reclassified as a non allowable asset on the Joint Regulatory Financial Questionnaire and Report or the Monthly Financial Report of the introducing broker.~~

~~g) Concentration calculation~~

~~— For the purposes of the concentration calculations required in Schedules 9 and 12 of the Joint Regulatory Financial Questionnaire and Report, the carrying broker must include, and the introducing broker must not include, all clients positions which the carrying broker maintains on behalf of the introducing broker in the carrying broker's calculation.~~

~~h) Segregation of clients securities~~

~~— The carrying broker must be responsible for segregating all securities which it holds for clients which have been introduced to it by the introducing broker, in accordance with the segregation requirements of the Rules and Policies of the Bourse.~~

~~i) Free credit balances segregation~~

~~— The carrying broker must be responsible for the compliance with the free credit balances segregation requirements of the Rules and Policies of the Bourse in relation to accounts of clients which have been introduced to it by the introducing broker.~~

~~j) Insurance~~

~~i) The introducing broker must maintain a minimum insurance of \$500,000, for the purposes of article 7076.~~

~~ii) The introducing broker and the carrying broker must each be responsible for providing Financial Institution Bond Clause (A) coverage for fidelity insurance, pursuant to article 7076.~~

~~iii) The carrying broker must include all accounts which have been introduced to it by the introducing broker in its calculation of the asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E), pursuant to article 7076.~~

~~iv) The introducing broker must include all accounts which have been introduced to the carrying broker in its calculation of the asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E), pursuant to article 7076.~~

~~v) Both the introducing broker and the carrying broker must maintain adequate mail insurance, as required pursuant to article 7076.~~

~~k) Required disclosure when opening client accounts~~

~~— At the time of opening of each client account, the introducing broker must, in a form satisfactory to the Vice President of the Regulatory Division of the Bourse, obtain from the client an acknowledgement that the introducing broker has advised him of the introducing broker's relationship to the carrying broker and of the relationship between the client and the carrying broker.~~

~~l) Contracts, statements and correspondence~~

~~— At the option of the introducing broker and the carrying broker, as they may agree, the name and role of each of the introducing broker and carrying broker may be shown on all contracts,~~

~~statements, correspondence and other documentation. Otherwise, the name of the introducing broker must be shown. Notwithstanding the foregoing, both the introducing broker and the carrying broker must be parties to any margin agreements and guarantee documentation with clients that the carrying broker carries.~~

~~m) Required annual disclosure~~

~~— At least once a year, the introducing broker must provide written disclosure, in a form satisfactory to the vice president of the Regulatory Division of the Bourse, to each of its clients whose accounts are being carried by the carrying broker, outlining the relationship between the introducing broker and the carrying broker and the relationship between such client and the carrying broker.~~

~~— Notwithstanding the foregoing, if the name and role of each of the introducing broker and carrying broker are shown on all contracts, statements, correspondence and other documentation, in accordance with subparagraph 1) above, the introducing broker does not need to provide annual disclosure, as required by the present subparagraph m).~~

~~n) Clients introduced to the carrying broker~~

~~— Each client introduced to the carrying broker by the introducing broker must be considered a client of the carrying broker for the purposes of complying with the Rules and Policies of the Bourse.~~

~~o) Responsibility for compliance with all non-financial requirements~~

~~— Unless otherwise specified in the present paragraph 3), the introducing broker must be responsible for compliance with all non-financial requirements of the Rules and Policies of the Bourse for each account introduced to the carrying broker by the introducing broker.~~

~~p) Cash transactions~~

~~— The introducing broker may facilitate cash transactions on behalf of clients that the carrying broker carries, through the use of an account in the name of either the carrying broker or the introducing broker.~~

~~q) Reporting of principal positions~~

~~— The introducing broker must report all principal positions, introduced to the carrying broker by the introducing broker, as inventory on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report. The carrying broker must report all principal positions, which have been introduced to it by the introducing broker, as a client account on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report.~~

~~4) Introducing Broker Type 3 Agreement~~

~~— For an introducing/carrying broker agreement to be considered an Introducing Broker Type 3 agreement, the parties must execute an agreement in the form prescribed and approved by the vice president of the Regulatory Division of the Bourse and the agreement must meet the following criteria:~~

a) ~~Minimum capital requirement~~

~~— An introducing broker that is a party to an Introducing Broker Type 3 agreement must maintain at all times a minimum capital of \$250,000 for the purposes of calculating its risk-adjusted capital.~~

b) ~~Margin arising from principal and agency business~~

~~— The carrying broker must calculate the margin for any principal and agency business that it carries on behalf of the introducing broker, in accordance with the relevant margin requirements of the Rules and Policies of the Bourse, and the introducing broker must maintain such required margin.~~

c) ~~Margin offsets permitted~~

~~— The carrying broker must be permitted to offset any margin required to be maintained, as determined in subparagraph b), against the loan value of any deposit made by the introducing broker with the carrying broker.~~

d) ~~Reporting of clients balances~~

~~— In calculating the risk-adjusted capital required pursuant to article 7006 and to the Joint Regulatory Financial Questionnaire and Report, the introducing broker must, and the carrying broker must not, report all accounts of clients introduced to the carrying broker by the introducing broker on the introducing broker's Joint Regulatory Financial Questionnaire and Report or Monthly Financial Report.~~

~~— Notwithstanding the foregoing, the carrying broker is required to report, on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report, one balance owing to or from the introducing broker in relation to the accounts of clients which it carries on behalf of the introducing broker. Such reporting of one balance must not release, discharge, limit or otherwise affect the carrying broker's obligations and liabilities to each individual client whose account it carries on behalf of the introducing broker.~~

e) ~~Net clients balances and funding deployment~~

~~— In relation to the accounts of clients introduced to the carrying broker by the introducing broker, the carrying broker must be responsible for meeting any financing requirements of such clients accounts.~~

f) ~~Security deposit~~

~~— Any deposit provided to the carrying broker by the introducing broker pursuant to the terms of the agreement between them must be segregated by the carrying broker and, in the case of a cash deposit, such deposit must be held by the carrying broker in a separate bank account in trust for the introducing broker.~~

g) ~~Concentration calculation~~

~~— For the purposes of the concentration calculations required in Schedules 9 and 12 of the Joint Regulatory Financial Questionnaire and Report, the introducing broker must include, and the carrying broker must not include, all clients positions which the carrying broker maintains on behalf of the introducing broker in the introducing broker's calculation.~~

~~h) Segregation of clients securities~~

~~— The carrying broker must be responsible for segregating all securities which it holds for clients which have been introduced to it by the introducing broker, in accordance with the segregation requirements of the Rules and Policies of the Bourse.~~

~~i) Free credit balances segregation~~

~~— The carrying broker must be responsible for complying with the free credit balances segregation requirements of the Rules and Policies of the Bourse in relation to accounts of clients introduced to it by the introducing broker.~~

~~j) Insurance~~

~~i) The introducing broker must maintain a minimum insurance of \$500,000, for the purposes of article 7076.~~

~~ii) The introducing broker and the carrying broker must each be responsible for providing Financial Institution Bond Clause (A) coverage for fidelity insurance, pursuant to article 7076.~~

~~iii) The carrying broker and the introducing broker must include all accounts introduced to the carrying broker by the introducing broker in each of their calculations of the asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E), pursuant to article 7076.~~

~~iv) Both the introducing broker and the carrying broker must maintain adequate mail insurance, as required pursuant to article 7076.~~

~~k) Required disclosure when opening client accounts~~

~~— At the time of opening of each client account, the introducing broker must advise the client, in a form satisfactory to the vice president of the Regulatory Division of the Bourse, of the introducing broker's relationship to the carrying broker and of the relationship between the client and the carrying broker.~~

~~l) Contracts, statements and correspondence~~

~~— At the option of the introducing broker and the carrying broker, as they may agree, the name and role of each of the introducing broker and carrying broker may be shown on all contracts, statements, correspondence and other documentation. Otherwise, the name of the introducing broker must be shown. Notwithstanding the foregoing, both the introducing broker and the carrying broker must be parties to any margin agreements and guarantee documentation with clients that the carrying broker carries.~~

~~m) Required annual disclosure~~

~~— At least once a year, the introducing broker must provide written disclosure, in a form satisfactory to the vice president of the Regulatory Division of the Bourse, to each of its clients whose accounts are being carried by the carrying broker, outlining the relationship between the introducing broker and the carrying broker and the relationship between such client and the carrying broker.~~

~~— Notwithstanding the foregoing, if the name and role of each of the introducing broker and carrying broker are shown on all contracts, statements, correspondence and other documentation, in accordance with subparagraph 1) above, the introducing broker need not provide annual disclosure, as required by the present subparagraph m).~~

~~n) Clients introduced to the carrying broker~~

~~— Each client introduced to the carrying broker by the introducing broker must be considered a client of the carrying broker for the purposes of complying with the Rules and Policies of the Bourse.~~

~~o) Responsibility for compliance with all non financial requirements~~

~~— Unless otherwise specified in the present paragraph 4), the introducing broker must be responsible for compliance with all non financial requirements of the Rules and Policies of the Bourse for each account introduced to the carrying broker by the introducing broker.~~

~~p) Cash transactions~~

~~— The introducing broker may facilitate cash transactions on behalf of clients that the carrying broker carries, through the use of an account in the name of either the carrying broker or the introducing broker.~~

~~q) Reporting of principal positions~~

~~— The introducing broker must report all principal positions, introduced to the carrying broker by the introducing broker, as inventory on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report. The carrying broker must report all principal positions, which have been introduced to it by the introducing broker, as a client account on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report.~~

~~5) Introducing Broker Type 4 Agreement~~

~~— For an introducing/carrying broker agreement to be considered an Introducing Broker Type 4 agreement, the parties must execute an agreement in the form prescribed and approved by the vice president of the Regulatory Division of the Bourse and the agreement must meet the following criteria:~~

~~a) Minimum capital requirement~~

~~— An introducing broker that is a party to an Introducing Broker Type 4 agreement must maintain at all times a minimum capital of \$250,000 for the purposes of calculating its risk-adjusted capital.~~

~~b) — Margin arising from principal and agency business~~

~~— The carrying broker must calculate the margin for any principal and agency business that it carries on behalf of the introducing broker, in accordance with the relevant margin requirements of the Rules and Policies of the Bourse, and the introducing broker must maintain such required margin.~~

~~e) — Margin offsets permitted~~

~~— The carrying broker must be permitted to offset any margin required to be maintained, as determined in subparagraph b), against the loan value of any deposits made by the introducing broker with the carrying broker.~~

~~d) — Reporting of clients balances~~

~~— In calculating the risk-adjusted capital required pursuant to article 7006 and to the Joint Regulatory Financial Questionnaire and Report, the introducing broker must, and the carrying broker must not, report all accounts of clients introduced to the carrying broker by the introducing broker on the introducing broker's Joint Regulatory Financial Questionnaire and Report or Monthly Financial Report.~~

~~— Notwithstanding the foregoing, the carrying broker is required to report one balance owing to or from the introducing broker in relation to the accounts of clients which it carries on behalf of the introducing broker on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report. Such reporting of one balance must not release, discharge, limit or otherwise affect the carrying broker's obligations and liabilities to each individual client whose account it carries on behalf of the introducing broker.~~

~~e) — Net clients balances and funding deployment~~

~~— In relation to the accounts of clients introduced to the carrying broker by the introducing broker, the introducing broker must be responsible for meeting any financing requirements of such clients accounts.~~

~~f) — Security deposit~~

~~— Any deposit provided to the carrying broker by the introducing broker pursuant to the terms of the agreement between them must be segregated by the carrying broker and, in the case of a cash deposit, such deposit must be held by the carrying broker in a separate bank account in trust for the introducing broker.~~

~~g) — Concentration calculation~~

~~— For the purposes of the concentration calculations required in Schedules 9 and 12 of the Joint Regulatory Financial Questionnaire and Report, the introducing broker must include, and the~~

~~carrying broker must not include, all clients positions which the carrying broker maintains on behalf of the introducing broker in the introducing broker's calculation.~~

~~h) Segregation of clients securities~~

~~— The carrying broker must be responsible for segregating all securities which it holds for clients which have been introduced to it by the introducing broker, in accordance with the segregation requirements of the Rules and Policies of the Bourse.~~

~~i) Free credit balances segregation~~

~~— The introducing broker must be responsible for complying with the free credit balances segregation requirements of the Rules and Policies of the Bourse in relation to accounts of clients introduced to the carrying broker by the introducing broker.~~

~~j) Insurance~~

~~i) The introducing broker must maintain a minimum insurance of \$500,000, for the purposes of article 7076.~~

~~ii) The introducing broker and the carrying broker must each be responsible for providing Financial Institution Bond Clause (A) coverage for fidelity insurance, pursuant to article 7076.~~

~~iii) The carrying broker and the introducing broker must include all accounts introduced to the carrying broker by the introducing broker in each of their calculations of the asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E), pursuant to article 7076 of the Rules.~~

~~iv) Both the introducing broker and the carrying broker must maintain adequate mail insurance, as required pursuant to article 7076.~~

~~k) Required disclosure when opening client accounts~~

~~— At the time of opening of each client account, the introducing broker must advise the client, in a form satisfactory to the Vice President of the Regulatory Division, of the introducing broker's relationship to the carrying broker and of the relationship between the client and the carrying broker.~~

~~l) Contracts, statements and correspondence~~

~~— At the option of the introducing broker and the carrying broker, as they may agree, the name and role of each of the introducing broker and carrying broker may be shown on all contracts, statements, correspondence and other documentation. Otherwise, the name of the introducing broker must be shown.~~

~~— Notwithstanding the foregoing, if any margin or guarantee agreements are solely between the client and the introducing broker, the agreement between the introducing broker and the carrying broker must provide that the carrying broker may act to protect its interest in those securities for which it has not been paid by the introducing broker at the time that the~~

~~introducing broker becomes insolvent, bankrupt or ceases to adhere to a self regulatory organization which is a participant in the Canadian Investment Protection Fund.~~

~~m) Required annual disclosure~~

~~— At least once a year, the introducing broker must provide written disclosure, in a form satisfactory to the vice president of the Regulatory Division of the Bourse, to each of its clients whose accounts are being carried by the carrying broker, outlining the relationship between the introducing broker and the carrying broker and the relationship between such client and the carrying broker.~~

~~— Notwithstanding the foregoing, if the name and role of each of the introducing broker and carrying broker are shown on all contracts, statements, correspondence and other documentation, in accordance with subparagraph 1) above, the introducing broker need not provide annual disclosure, as required by the present subparagraph m).~~

~~n) Clients introduced to the carrying broker~~

~~— Each client introduced to the carrying broker by the introducing broker must be considered a client of the carrying broker for the purposes of complying with the Rules and Policies of the Bourse.~~

~~o) Responsibility for compliance with all non financial requirements~~

~~— Unless otherwise specified in the present paragraph 5), the introducing broker must be responsible for compliance with all non financial requirements of the Rules and Policies of the Bourse for each account introduced to the carrying broker by the introducing broker.~~

~~p) Cash transactions~~

~~— The introducing broker may facilitate cash transactions on behalf of clients that the carrying broker carries, through the use of an account in the name of either the carrying broker or the introducing broker.~~

~~q) Reporting of principal positions~~

~~— The introducing broker must report all principal positions, introduced to the carrying broker by the introducing broker, as inventory on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report. The carrying broker must report all principal positions, which have been introduced to it by the introducing broker, as a client account on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report.~~

~~**6) Exemption for agreements between an approved participant and a foreign affiliate**~~

~~— Notwithstanding the provisions of the present article, on the application of an approved participant, the vice president of the Regulatory Division of the Bourse may exempt any agreements between an approved participant and an approved participant's foreign affiliate, pursuant to which the approved participant carries accounts of the foreign affiliate or of its clients, from the requirements of the present article (other than paragraph 6)), provided that the agreements meet the following criteria:~~

a) ~~Exemption applicable to affiliates of the approved participant~~

~~The exemption in paragraph 6 of the present article must apply only to agreements between an approved participant and a foreign affiliate of the approved participant. The approved participant must provide the Bourse with evidence satisfactory to the Vice President of the Bourse of such relationship and of the details concerning the agreements between them.~~

b) ~~Disclosure of relationship to clients of foreign affiliate~~

~~The approved participant must ensure that the foreign affiliate provides, at least annually, written disclosure in a form satisfactory to the vice president of the Regulatory Division of the Bourse, to each of the foreign affiliate's clients whose accounts are being carried by the approved participant, outlining the relationship between the approved participant and the approved participant's foreign affiliate and the relationship between the approved participant and the client of the foreign affiliate, and indicating any limitations with regards to coverage of such clients accounts by the Canadian Investor Protection Fund, as determined by the Canadian Investor Protection Fund in conjunction with the Bourse and the other self regulatory organizations from time to time.~~

c) ~~Approval by the competent authority in the foreign affiliate's jurisdiction~~

~~The exemption provided in paragraph 6 of the present article must only be granted by the vice-president of the Regulatory Division upon receipt of written approval from the competent authority in the foreign affiliate's jurisdiction acknowledging and approving the agreement between the approved participant and the approved participant's foreign affiliate.~~

d) ~~Responsibility for compliance with the requirements of the Bourse~~

~~Foreign affiliates of an approved participant that have an agreement with the approved participant, as described in paragraph 6) of the present article, are not required to comply with the requirements of the Rules and Policies of the Bourse solely as a result of such an agreement.~~

e) ~~Reporting of balances~~

~~In calculating its risk adjusted capital required pursuant to article 7006 and to the Joint Regulatory Financial Questionnaire and Report, the approved participant must report one balance owing to or from its foreign affiliate in relation to the accounts of clients which the approved participant carries on behalf of its foreign affiliate on its Joint Regulatory Financial Questionnaire and Report or its Monthly Financial Report.~~

f) ~~Segregation of securities~~

~~The approved participant must be responsible for segregating all securities which it holds for clients of its foreign affiliate, in accordance with the segregation requirements of the Rules and Policies of the Bourse.~~

g) ~~Insurance~~

~~—The approved participant must include all accounts introduced to it by its foreign affiliate in its calculation of the asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E), pursuant to article 7076.~~

Section 7476-7500
Specific Provisions
on Discretionary Accounts
(abr. 00.00.00)

7476 Definitions

(01.04.93, 13.09.05, abr. 00.00.00)

~~"Commingled funds investment portfolio"~~

~~means an investment portfolio of a bank, trust company, loan company, insurance company, mutual fund or pension plan, including a profit sharing or other retirement savings or similar plan but excluding a self administered retirement savings plan;~~

~~"Managed account"~~

~~means an investment portfolio of a client managed by an approved participant through discretionary authority granted by the client on a continuing basis, whether in consideration of fees or otherwise, where:~~

- ~~i) such investment portfolio is a commingled funds investment portfolio, or~~
- ~~ii) the management of such investment portfolio by the approved participant arises because such approved participant has held itself out or has described itself as having special skills or abilities regarding the management of investment portfolios;~~

~~—but must not include either~~

- ~~iii) the management of such investment portfolio on a temporary basis at the written request of a client because of its inability to communicate instructions by reason of absence, illness or other reasonable cause, or~~
- ~~iv) the management of such investment portfolio on a continuing basis by a partner, an officer or director of an approved participant on the basis of a personal relationship between such partner, officer or director and the client, where such management was in effect at the time this section came into effect.~~

~~"Discretionary Account"~~

~~means an account in which the client gives a director, an officer or a partner of an approved participant discretion, which may be complete or within specific limits, as to the purchase and sale of securities, options or futures contracts including selection, timing and price to be paid or received.~~

~~No registered representative, investment representative or other employee, other than a director, or officer or partner of an approved participant must be permitted to accept authorization for a discretionary account from a customer of an approved participant. No approved participant must~~

~~exercise any discretionary power with respect to a client's account unless such client has given prior written authorization and the account has been accepted in writing by the partner or director designated pursuant to article 7452. Each discretionary order must be identified as such at the time of entry.~~

~~"Portfolio manager"~~

~~means any partner, director, officer or employee of an approved participant designated by such approved participant, which designation must be made in writing.~~

~~"Responsible person"~~

~~means the approved participant and every individual who is a partner, director, officer or employee of any approved participant or such individual who participates in the formulation of investment decisions or has access to information prior to implementation of investment decisions made on behalf of or advice given to the managed account.~~

7477 Obligation to comply
(01.04.93, 13.09.05, abr. 00.00.00)

~~—Each approved participant and related company that manages a managed account must comply with the provisions of articles 7476 to 7487 hereof in connection with such managed account.~~

7478 Written Authorization
(01.04.93, 13.09.05, abr. 00.00.00)

~~—No approved participant nor any person acting on its behalf, must exercise any discretionary authority with respect to a managed account unless the individual who is responsible for the management of such account has been designated as portfolio manager, the client has given prior written authorization to the approved participant to manage the account and the approved participant has accepted the managed account. Such acceptance must be evidenced by a document in writing which must be available for examination and signed on behalf of the approved participant by a partner, director or officer of the approved participant.~~

~~—The authorization given to the approved participant must specify the investment objectives of the client with respect to the particular managed account. Each such authorization or acceptance may be terminated by notice in writing by the approved participant or the client, as the case may be. Notice of termination of authority by a client must be effective on receipt of the written notice by the approved participant except with respect to transactions entered into prior to the receipt of such notice. Notice of termination of acceptance by the approved participant must be effective on the date specified therein which date must not be earlier than thirty (30) days from the mailing of the written notice to a client.~~

7479 Designation of a Supervisory Authority
(01.04.93, 13.09.05, abr. 00.00.00)

~~—The approved participant must designate in writing one or more partners, directors or officers who must assume supervisory responsibility for each managed account and the client must be advised in writing of which such individual(s) supervise the particular managed account. The failure to advise the client in writing of the name of the individual supervising his managed account shall not vitiate the authority of the approved participant to manage the client's account.~~

7480 Designation as a Portfolio Manager or Associate Portfolio Manager(01.04.93, 21.08.02, 13.09.05, abr. 00.00.00)

~~—Designation as a portfolio manager or Associate Portfolio Manager must be made in writing by the approved participant and may be granted where the designated individual has satisfied the applicable proficiency requirements outlined in Policy F 2 of the Bourse.~~

7481 Portfolio Management Committee(01.04.93, 13.09.05, abr. 00.00.00)

~~—Each approved participant (other than an approved participant that has less than two (2) partners, directors or officers) that has managed accounts must form a Portfolio Management Committee to be composed of two (2) or more individuals who must be partners, directors or officers and at least one of whom must not be a portfolio manager of the approved participant. The Portfolio Management Committee must review not less than once in each quarter of any twelve month period the investment policies of the approved participant in respect of its managed accounts and record the results of each such review in writing.~~

7482 Quarterly Review of the Managed Accounts(01.04.93, 13.09.05, abr. 00.00.00)

~~—Each managed account must be reviewed at least four times in each twelve month period, preferably quarterly, by a responsible person of the approved participant to ensure that the investment objectives of the client are diligently pursued and that the managed account is being conducted in accordance with the Rules of the Bourse.~~

7483 Investment Policies(01.04.93, 13.09.05, abr. 00.00.00)

~~—The approved participant must maintain standards directed to ensuring fairness in the allocation of investment opportunities among its managed accounts and a copy of the policies established must be furnished to each client and to the Bourse upon demand.~~

7484 Fees Agreement(01.04.93, 13.09.05, abr. 00.00.00)

~~—The approved participant may charge each client directly for services rendered to the managed account but, except with the agreement of the client, such charge must not be contingent upon profits or performance. Such agreement must be inscribed on the client account application form or contained in a written form.~~

7485 Separate and Distinct Supervision for each Managed Account(01.04.93, 13.09.05, abr. 00.00.00)

~~—The approved participant must ensure that each managed account is supervised separately and distinctly from other managed accounts.~~

~~An order placed on behalf of one managed account can be pooled with that of another managed account.~~

7486 Ethics(01.04.93, 13.09.05, abr. 00.00.00)

~~—The approved participant must obtain an undertaking from each responsible person not to trade for his or her own account or, as the case may be, knowingly permit or arrange for any associated person to trade in reliance upon information as to trades made or to be made for any managed account. The approved participant must establish and maintain procedures, satisfactory to the Bourse, designated to disclose when a responsible person or an associate of such a responsible person has contravened that undertaking.~~

7487 The Approved Participant's Mandate(01.04.93, 13.09.05, abr. 00.00.00)

~~—The approved participant must not without the written consent of the client, knowingly cause any managed account to:~~

- ~~1) invest in an issuing company in which a responsible person or an associate of a responsible person is an officer or director, and no such investment must be made even with the written consent of the client unless such office or directorship have been disclosed to the client;~~
- ~~2) purchase or sell the securities of any issuing company from or to the account of a responsible person; or from or to the account of an associate of a responsible person; or~~
- ~~3) make a loan to a responsible person or to an associate of a responsible person.~~

Section 7501 - 7550**Procedures Concerning the Custody, the Segregation
and the Safekeeping of Clients' Securities and Free Credits**(abr. 00.00.00)**7501 Definitions**(01.10.86, 01.06.89, 01.04.93, 13.09.05, abr. 00.00.00)

~~—For the purposes of this section:~~

~~1) Client:~~

~~—means any person who maintains an account with an approved participant.~~

~~2) Net loan value of a security means in respect of:~~

~~a) long positions: the market value of the security less any margin required;~~

~~b) short positions: the market value of the security plus any margin required expressed as a negative number;~~

~~c) short option positions: any margin required expressed as a negative number.~~

~~3) Excess margin securities:~~

~~— means those marginable securities of a client selected by the approved participant among all the marginable securities of the client which are not required to fully margin the client's account.~~

~~4) Free credit balances means:~~

- ~~a) for cash and margin accounts — the credit balance less an amount equal to the aggregate of (i) the market value of short positions, and (ii) margin required pursuant to the Rules on those short positions; and~~
- ~~b) for futures contracts accounts — the credit balance less an amount equal to the aggregate of (i) margin required on open futures contracts and/or options on futures contracts, (ii) less any unrealized gain in such contracts, (iii) plus any unrealized losses in such contracts, provided that such aggregate amount may not exceed the dollar amount of the credit balance.~~

7502 Clients Free Credit Balances

(01.04.93, 13.09.05, abr. 00.00.00)

~~1) Each approved participant which does not keep its clients' free credit balances in an account with an acceptable institution segregated in trust for clients from the other monies received by such approved participant must legibly make a notation on all statements of account sent to its clients in substantially the following form:~~

~~— "Any free credit balances represent funds payable on demand which, although properly recorded in our books, are not segregated and may be used in the conduct of our business."~~

~~2) No approved participant must use in the conduct of its business clients' free credit balances in excess of the aggregate of the following amounts:~~

- ~~a) eight times the net allowable assets of the approved participant; plus~~
- ~~b) four times the approved participant's Early Warning Reserve.~~

~~— Each approved participant must hold an amount at least equal to the amount of clients' free credit balances in excess of the foregoing either (i) in cash segregated in trust for clients in a separate account or accounts with an acceptable institution; or (ii) segregated in trust and separate and apart from the approved participant's property in bonds, debentures, treasury bills and other securities of or guaranteed by the Government of Canada or by any province thereof, the United Kingdom, the United States of America and any other national foreign government (provided such other foreign government is a member of the Basle Accord) having a term to maturity of one (1) year or less.~~

~~3) Approved participants must determine at least weekly the amounts required to be segregated in accordance with paragraph 2 of the present article.~~

~~4) Approved participants must review on a daily basis compliance with paragraph 2 of the present article against the latest determination under this article of amounts to be segregated with a view to identifying and correcting any deficiency in amounts of free credit balances to be segregated.~~

~~5) In the event that a deficiency exists in amounts of free credit balances required to be segregated by an approved participant, the approved participant must expeditiously take the most appropriate action to rectify the deficiency.~~

7503 General Concept(01.10.86, 01.06.89, 01.04.93, 13.09.05, abr. 00.00.00)

- ~~1) The Special Committee may prescribe the manner in which securities owned or held by an approved participant or held by an approved participant for the account of a client are to be segregated and held including, without limitation, the locations in which securities may be held and the manner in which the amount or value of securities to be segregated must be calculated.~~
- ~~2) The securities of all clients of an approved participant may be segregated in bulk for all such clients, other than those clients whose securities are held apart from all other securities pursuant to a written safekeeping agreement.~~
- ~~3) Non-Negotiable Securities:

— Securities which are restricted or which are non-negotiable or which cannot be made fully negotiable solely by signature or guarantee of the approved participant must be deemed not to be segregated unless such securities are registered in the name of the client (or the name of a person designated by the client) on whose behalf they are being held in an acceptable segregation location.~~
- ~~4) General restrictions:

— In complying with its obligation to segregate client securities, each approved participant must ensure that:

 - ~~a) a segregation deficiency is not knowingly created or increased;~~
 - ~~b) no securities held by the approved participant are delivered against payment for the account of any client if such securities are required to satisfy the segregation requirements of the approved participant in respect of any client;~~
 - ~~c) all free securities (i.e. fully paid and unencumbered securities which have not been sold or are not required for margin) received by the approved participant must be segregated.~~~~
- ~~5) When these securities are deposited by the approved participant in the book-based system of the clearing corporation, the segregation requirements are met if the positions are recorded in the approved participant segregation sub-account.~~

7504 Acceptable Internal Locations(01.10.86, 01.06.89, 01.04.93, 13.09.05, abr. 00.00)

~~— The securities held within the physical possession or control of the approved participant may be segregated and held in trust for clients of the approved participant, or segregated and held by or for the approved participant, as the case may be, in the following prescribed locations:~~

~~1) Internal Locations:~~

~~— All internal locations designated in the approved participant's ledger of accounts for which adequate internal accounting controls and systems for safeguarding of securities held for clients are maintained~~

~~and which reflect unencumbered security positions in the possession and control of the approved participant.~~

~~— All securities in transit between internal locations, for which adequate internal controls are maintained, provided that securities in transit for more than five (5) business days may not be considered as being in the possession and control of an approved participant for purposes of segregation.~~

~~2) Transfer Locations:~~

~~— All securities which are in the process of being transferred by a registered or recognized transfer agent:~~

~~a) if such securities are with transfer agents in Canada and have not been received within twenty (20) business days of delivery, the approved participant must obtain a confirmation of the position receivable from the transfer agent. If such position remains unconfirmed after forty five (45) business days of delivery, the approved participant must transfer the position to its difference account;~~

~~b) if such securities are with transfer agents in the United States, the approved participant must confirm the receivable after forty five (45) business days of delivery and transfer the position to its difference account after seventy (70) business days of delivery if the position has not been confirmed;~~

~~c) if such securities are with transfer agents outside Canada and the United States, the approved participant must confirm the receivable after seventy (70) business days of delivery and transfer the position to its difference account after one hundred (100) business days of delivery if the position has not been confirmed.~~

~~— Positions which are required to be transferred to the approved participant's difference account, must not be considered to be in the possession and control of the approved participant for the purposes of segregation.~~

7505 Restrictions on the Use of Clients' Securities

(01.10.86, 01.06.89, 01.04.93, 13.09.05, abr. 00.00.00)

~~1) Securities of a client used for margin purposes must not be pledged or loaned by the approved participant unless a margin agreement has been signed by the client.~~

~~2) Fully paid securities of a client must not be pledged or loaned by the approved participant except what is permitted by the conditions of article 7507.~~

~~3) No securities held by an approved participant for the account of a client, whether fully paid or representing excess margin, may be loaned to the approved participant in his capacity as broker, or to others, or delivered on sales made by the approved participant for any account in which the approved participant or any partner or employee has a direct or indirect interest unless a specific written authorization designating the particular securities to be loaned is first obtained from the client.~~

~~4) Under no circumstance may an approved participant pledge margin securities having a margin rate of 100%.~~

7506 Restrictions on Delivery of Customers' Securities(01.10.86, 01.04.93, 13.09.05, abr. 00.00.00)

~~—No general agreement between an approved participant and a client may justify the approved participant in delivering securities carried free or as collateral for the client, on sales made by the approved participant for any account in which such approved participant or any partner thereof or employee therein is directly or indirectly interested.~~

7507 Written Notice to Clients Required(01.10.86, 01.04.93, 13.09.05, abr. 00.00.00)

~~—Notwithstanding the terms and conditions of a contract between an approved participant and his client and without prejudice to the rights and obligations arising therefrom, an approved participant must not pledge or loan fully paid securities held for a client in a cash account having a debit balance, unless he has previously advised the client in writing and provided that the loan value of the securities loaned or pledged does not exceed the debit balance except if the excess is reasonable as defined by article 7508.~~

~~—The notice to the client, which must be accompanied by a request for payment, must be sent by the approved participant before the said pledge or loan and must state in a plain and truthful manner:~~

- ~~1) that the approved participant has the right to loan and pledge all the securities held on behalf of the client, whether paid or unpaid, except for the restrictions imposed by the Securities Act and the regulations and policy statements enacted pursuant to such act;~~
- ~~2) that if the approved participant exercises such right, the securities loaned or pledged will no longer be in the possession of the approved participant nor available for immediate delivery to the client as a result of their being pledged or loaned by the approved participant.~~

~~—The pledge or loan of fully paid securities for the purpose of fully covering a debit balance must mandatorily be preceded by the loan or pledge of all unpaid securities held on behalf of the same client and having a loan value.~~

~~—The notice to the client may be put on the confirmation of an order or be a separate advice but in any case it must be clearly legible, highlighted and printed on the front of any document used to give the notice.~~

7508 Determination of the Number of Securities to Be Segregated(01.10.86, 01.06.89, 01.04.93, 02.06.95, 13.09.05, abr. 00.00.00)

- ~~1) An approved participant who holds securities of clients must determine for all accounts of each client the following amounts:

 - ~~a) the net loan value of all securities held for such accounts less (or plus in the case of a credit) the aggregate debit cash balance in the accounts; and~~
 - ~~b) the market value of all securities not eligible for margin under articles 7202 and following of the Rules minus the aggregate amount, if any, by which such accounts are undermargined as calculated in a).~~~~

- ~~2) These amounts must represent the net loan value or market value, as the case may be, of securities required to be segregated by the approved participant in respect of such client's accounts. The amounts of securities required to be segregated by an approved participant in respect of the accounts of a client must not be greater than the market value of the securities held for such accounts.~~
- ~~3) An approved participant may satisfy its obligations to segregate client securities by segregating for all clients the number of securities determined as follows:~~
- ~~a) Equity securities:~~
- ~~— The aggregate loan value and market value of each class or series of security required to be segregated for each client as determined above divided by the loan or market value, as the case may be, of one unit of the security, must be the number of such securities required to be segregated.~~
- ~~b) Debt securities:~~
- ~~— The aggregate loan value and market value of each class or series of security required to be segregated for each client as determined above divided by the loan or market value, as the case may be, of each \$100 of principal amount of the security, multiplied by 100 and rounded to the lowest issuable denomination, must be the principal amount of such securities required to be segregated.~~
- ~~4) In determining which securities must be used to satisfy the segregation requirements in respect of each such client's positions, the approved participant may select among all of the securities carried for the client's accounts, subject to the restrictions of any applicable securities legislation including, without limitation, a requirement that fully paid securities in a cash account be segregated before unpaid securities.~~
- ~~5) Securities which are required to be segregated but which have been sold by the approved participant on behalf of a client must remain segregated until three (3) business days prior to settlement date. Securities which are required to be segregated for a client must not be removed from segregation as a result of the purchase of any securities by such client until settlement date.~~

7509 Segregation on a Timely Basis and Corrections to be Made
 (01.10.86, 01.06.89, 01.04.93, 02.06.95, 13.09.05, abr. 00.00.00)

~~1) Frequency and Review of Calculation:~~

- ~~— An approved participant must determine at least twice weekly the securities required to be segregated.~~
- ~~— Each approved participant must review on a daily basis compliance with its segregation requirements for its clients' securities according to the latest determination of such securities with the view of identifying any deficiency in securities required to be segregated and correcting any such deficiency.~~

~~2) Correction of Segregation Deficiencies:~~

~~In the event that a segregation deficiency exists, including, without limitation, deficiencies arising in the circumstances listed below, the approved participant must expeditiously take the most appropriate action required to settle the segregation deficiency.~~

~~a) Call Loans:~~

~~The approved participant must take action to recall such securities within the business day following the determination of the deficiency.~~

~~b) Securities Loans:~~

~~The approved participant must call for the return of such securities from the borrower within the business day following the determination of the deficiency or must borrow securities of the same issue to cover the deficiency and should such securities not have been received by the approved participant within three (3) business days following the determination of the deficiency, the approved participant must undertake to buy in the borrower.~~

~~c) Inventory or Trading Account Short Positions:~~

~~The approved participant must borrow securities of the same issue to cover the deficiency within the business day following the determination of the deficiency or must undertake to purchase the securities immediately.~~

~~d) Client Declared Short Sales:~~

~~The approved participant must borrow securities of the same issue to cover the deficiency within the business day following the determination of the deficiency or must undertake to buy in the securities within three (3) business days.~~

~~e) Fails — clients, approved participants, acceptable institutions or acceptable counterparties:~~

~~If such securities have not been received by the approved participant within fifteen (15) business days of the settlement date, the approved participant must borrow securities of the same issue to cover the deficiency or must undertake to buy in the securities.~~

~~f) Stock Dividends Receivable and Stock Splits:~~

~~If such securities have not been collected within forty five (45) business days of the date receivable, the approved participant must obtain a written confirmation of the position receivable. If such position remains unconfirmed after the aforementioned forty five (45) business days, the approved participant must transfer the position to its difference account.~~

~~g) Difference Accounts:~~

~~Each approved participant must maintain a difference or suspense account in which must be recorded all securities which have not been received by reason of irreconcilable differences or errors in any accounts. If securities recorded in a difference account have not been obtained by the approved participant within thirty (30) business days of the deficiency being recorded, the approved participant must borrow securities of the same class or series to cover the deficiency or must undertake to purchase the securities immediately.~~

7510 Securities Held in Safekeeping(01.04.93, 13.09.05, abr. 00.00.00)

~~—Securities held for safekeeping means those securities held by an approved participant for a client pursuant to a written safekeeping agreement. These securities must be free from any encumbrance, be kept apart from all other securities and be identified as being held in safekeeping for a client in an approved participant's security position record, customer's ledger and statement of account. Securities so held can only be released pursuant to an instruction from the client and not solely because the client has become indebted to the approved participant.~~

7511 Acceptable Securities Locations(01.10.86, 20.12.91, 01.05.92, 01.04.93, 13.09.05, abr. 00.00.00)

- ~~1. For the purposes of articles 7503, 7504 and 7510 of the Rules, securities held beyond the physical possession of the approved participant may be segregated and held by or for an approved participant or segregated or kept in safekeeping and held in trust for clients of an approved participant, as the case may be, in the locations described as acceptable securities locations in the Joint Regulatory Financial Questionnaire and Report of Policy C 3 of the Bourse provided that the written terms upon which such securities are deposited and held beyond the physical possession of the approved participant include provisions to the effect that:

 - ~~a) no use or disposition of the securities must be made without the prior written consent of the approved participant;~~
 - ~~b) certificates representing the securities can be promptly delivered to the approved participant on demand or, where certificates are not available and the securities are represented by book entry at the location, the securities can be transferred either from the location or to another person at the location promptly on demand; and~~
 - ~~c) the securities are held in segregation or safekeeping for the approved participant or its clients free and clear of any charge, lien, claim or encumbrance of any kind in favour of the depository or institution holding such securities.~~~~

POLICY C-2

(01.03.93, 21.10.93, 21.08.02, 01.10.02, abr. 00.00.00)

MINIMUM STANDARDS FOR RETAIL ACCOUNTS SUPERVISION

Introduction

~~—The present policy establishes the minimum standards of the securities brokerage industry for retail accounts supervision. These standards represent the minimum requirements necessary to ensure that an approved participant has in place procedures to properly supervise retail accounts activity.~~

~~The present policy:~~

- ~~a) does not relieve approved participants from complying with specific self-regulatory organization rules, regulations, policies and securities legislations applicable to particular trades or accounts; and~~
- ~~b) does not preclude approved participants from establishing a higher standard of supervision and in certain situations a higher standard may be necessary to ensure proper supervision.~~

~~—The following principles have been used to develop these minimum standards:~~

- ~~a) the term "review" in the present policy is used to mean a preliminary screening done in order to detect items which must be subjected to further investigation or an examination of unusual trading activity or both. It does not mean that every trade meeting the selection process of the present policy must be investigated. The supervisor must use reasonable judgment in selecting the items for further investigation;~~
- ~~b) it is presumed that approved participants have or will provide the necessary resources and qualified supervisors to ensure compliance with these standards;~~
- ~~c) the compliance with the "know your client" rule and suitability of investment requirements is primarily the responsibility of the registered representative. The supervisory standards in this policy relating to the "know your client" rule and suitability of investment requirements are intended to provide supervisors with a check list against which to monitor the handling of these responsibilities by the registered representatives;~~
- ~~d) an approved participant must, for accounts where no commission is generated for trades placed by a client (such as a fee based account where no commission is charged), develop supervisory policies for the review of such accounts at the branch and head office in lieu of the commission levels specified herein.~~

~~—An approved participant may, with the written approval of its prime audit jurisdiction, establish policies and procedures in order to carry out the supervision of client accounts pursuant to this policy using criteria set out in, and by the persons designated by, such policies and procedures. Such policies and procedures may differ from this policy in establishing the criteria used in selecting accounts for review and in the allocation of supervisory duties between head office and branch offices provided that, in the opinion of the prime audit jurisdiction, the approved participant's policies and procedures are appropriate to supervise trading of its clients.~~

I. ESTABLISHING AND MAINTAINING MINIMUM INDUSTRY STANDARDS FOR ACCOUNT SUPERVISION

(abr. 00.00.00)

Delegation and Education

Introduction

~~—Effective self regulation begins with the approved participant establishing and maintaining a supervisory environment which both fosters the business objectives of the approved participant and maintains the self regulatory process. To that end, an approved participant must establish and maintain procedures which are supervised by qualified individuals. A major aspect of self regulation is the ongoing education of staff in all areas of sales compliance.~~

A. Establishing Procedures

- ~~1. Approved participants must appoint designated principals who have the necessary knowledge of securities industry regulations and approved participant policies to properly perform the duties.~~
- ~~2. Written policies must be established to document supervision requirements.~~
- ~~3. Written instructions must be supplied to all supervisors and alternate supervisors to advise them on what is expected of them.~~
- ~~4. All policies established or amended must have senior management approval.~~

B. Maintaining Procedures

- ~~1. Evidence of supervisory reviews must be maintained. Evidence of the review done, such as, for example, inquiries made, replies received and, date of completion of examination, must be maintained for seven years and on site for one year.~~
- ~~2. An ongoing review of sales compliance procedures and practices must be undertaken both at head office and at branch offices.~~
- ~~3. There must be closer supervision of trading by approved persons who have a history of questionable conduct. Such closer supervision must be carried out both in the branch and at head office.~~

C. Delegation of tasks

- ~~1. Tasks and procedures may be delegated but not responsibilities.~~
- ~~2. The approved participant must advise supervisors of those specific tasks which cannot be delegated such as approval of new accounts and accepting discretionary accounts (except on an interim basis as specifically provided in the present Policy).~~
- ~~3. The supervisor delegating the task must ensure that these tasks are being performed adequately and that exceptions are brought to his/her attention.~~

4. ~~Those who are delegated tasks must be capable of performing them and should be advised in writing of their expected tasks.~~

~~D. Education~~

1. ~~The approved participant's current sales practices and policies must be made available to all sales and supervisory personnel. Approved participants must obtain and record acknowledgements from all sales and supervisory personnel that they have received, read and understood the policies and procedures relevant to their responsibilities.~~
2. ~~Introduction and continuing education should be provided for all approved persons.~~
3. ~~Information contained in compliance related bulletins, and Canadian Securities Administrators must be communicated to all sales and other approved persons. Procedures relating to the method and timing of distribution of these compliance related documents must be clearly detailed in the approved participant's written procedures.~~

II. OPENING NEW ACCOUNTS

(abr. 00.00.00)

Introduction

~~—To comply with the "Know Your Client" rule each approved participant must establish procedures to maintain accurate and complete information on each client. The first step towards compliance with this rule is completing proper documentation when opening new accounts. Accurate completion of the documentation when opening a new account allows both the registered representative or investment representative and the supervisory staff to conduct the necessary review to ensure that recommendations made for any account are appropriate for the client and in keeping with his investment objectives. Maintaining accurate and current documentation will allow the registered representative or investment representative and the supervisory staff to ensure that all recommendations made for any account are appropriate for the client and in keeping with his investment objectives.~~

~~A. Documentation~~

1. ~~A New Account Application Form (NAAF) must be completed for each new account. Such forms shall be duly completed to conform with the "Know Your Client" rule.~~
2. ~~The new account must be approved by the branch manager or the designated director, partner or officer, in writing prior to the initial trade or promptly thereafter (next day). A new account application form must not be approved by the branch manager or the designated director, partner or officer until it is completed. "Completed" means that all information necessary to assess suitability and credit worthiness has been obtained (and does not mean that the client must have signed the new account application form if the member requires that the client sign the said document). Alternate procedures for securing temporary approval are acceptable to prevent undue delays provided the branch manager promptly confirms final approval following the initial trade.~~
3. ~~Where the client is an employee of another approved participant, written approval by the employer to open an account must be obtained prior to the opening of such an account. Such accounts must be designated as non-client accounts.~~

- ~~4. A complete set of documentation must be maintained by the approved participant and the registered representative or investment representative must maintain a copy of the new account application form.~~
- ~~5. The registered representative or investment representative must update the copy of the new account application form where there is a material change in client information. Such update must be approved in the manner provided in paragraph 2 above.~~
- ~~6. When there is a change of registered representative or investment representative, the new registered representative or investment representative must verify the information on the new account application form in order to ensure it is current. There should be a signed acknowledgement by the new registered representative or investment representative and by the branch manager that the new account application form has been reviewed. It is acceptable to make a photocopy of the old new account application form (provided that the new account application form was approved within two years of the review) and have the registered representative or investment representative and branch manager initial all changes.~~
- ~~7. Account numbers must not be assigned unless they are accompanied by the proper name and address of the client and such name and address must be supported by the new account application form no later than the following day.~~

~~B. Pending Documents~~

- ~~1. Approved participants must have procedures in place to ensure supporting documents are received within a reasonable period of time after opening the account.~~
- ~~2. Incomplete new account application forms and documentation not received must be noted, filed in a pending documentation file and be reviewed on a periodic basis.~~
- ~~3. Failure to obtain required documentation within 25 business days must result in positive actions being taken. The nature of such positive action must be specified in the approved participant's written procedures.~~

~~C. Client Master Files~~

- ~~1. Entering and amending client master files must be controlled and accompanied by proper documentation.~~
- ~~2. All hold mail must be authorized by the client in writing and be controlled, reviewed on a regular basis and maintained by the responsible supervisor.~~
- ~~3. Returned mail is to be properly investigated and controlled by a person who is independent of the sales function although such person may be located within a branch.~~
- ~~4. For supervisory purposes, "non-client" accounts, RRSP accounts, managed accounts, discretionary accounts and restricted accounts must be readily identifiable.~~

III. BRANCH OFFICE ACCOUNT SUPERVISION
(21.10.93, abr. 00.00.00)

Introduction

~~—Each branch manager must undertake certain activities within the branch in order to assess compliance with regulatory and the internal requirements. These activities should be designated to identify failures to adhere to established policies and procedures and provide a mean for identifying undesirable account activities.~~

A. Daily Review

~~1. The branch manager (or designated alternate) must review the previous day's trading using any convenient means. This review is undertaken to attempt to detect, among other things, the following:~~

- ~~— lack of suitability;~~
- ~~— undue concentration of securities;~~
- ~~— excessive trading activity;~~
- ~~— trading in restricted securities;~~
- ~~— a conflict of interest between the registered representative or investment representative and his client trading activity;~~
- ~~— excessive trade transfers, trade cancellations, etc. indicating possible unauthorized trading;~~
- ~~— inappropriate / high risk trading strategies;~~
- ~~— quality downgrading of client holdings;~~
- ~~— excessive / improper crosses of securities between clients;~~
- ~~— improper employee trading;~~
- ~~— front running;~~
- ~~— account number changes;~~
- ~~— late payment;~~
- ~~— outstanding margin calls;~~
- ~~— violation of any internal trading restrictions.~~

~~2. In addition to transactional activity, branch manager must also keep themselves informed as to other client related matters such as:~~

- ~~— client complaints;~~
- ~~— cash account Rules violations;~~

~~—undisclosed short sales;~~

~~—transfers of funds and securities between unrelated accounts or between pro and client accounts or deposits from pro to client accounts;~~

~~—trading under margin.~~

~~B. Monthly Review~~

~~—Client and branch personnel monthly statements must be reviewed on a monthly basis and should encompass areas of concern as discussed in the daily activity review section.~~

~~—It is recognized that it may not be possible to review each statement produced. However, branch managers must review all monthly statements which produce gross commissions of \$1,500 or more for the month.~~

~~—All non-client accounts generating a statement must be reviewed on a monthly basis.~~

~~—This review should be completed within 21 days of the period covered by the statement unless precluded by unusual circumstances.~~

IV. HEAD OFFICE ACCOUNT SUPERVISION

(21.10.93, abr. 00.00.00)

Introduction

~~—A two tier structure is required to adequately supervise client account activity. While the head office or regional area level of supervision by its nature cannot be in the same depth as branch level supervision, it should cover all the same elements.~~

A. Daily Reviews

~~—The criteria to be used to conduct daily head office reviews are the following:~~

~~—stock trades with a value over \$5,000 and a price under \$5 per share;~~

~~—stock trades with value over \$20,000 and a price at or over \$5;~~

~~—bond trades over \$100,000 value per trade;~~

~~—non-client trading;~~

~~—client accounts of branch managers;~~

~~—all client accounts not reviewed by a branch manager;~~

~~—trade cancellations;~~

~~—trading in restricted accounts;~~

- ~~—trading in suspense accounts;~~
- ~~—account number changes;~~
- ~~—late payment;~~
- ~~—outstanding margin calls.~~
- ~~—Daily reviews must be completed within a day unless precluded by unusual circumstances.~~

~~B. Monthly Reviews~~

- ~~—The criteria to be used to conduct monthly head office reviews are, among other things, the following:~~
- ~~—clients' statements which generated more than \$3,000 commissions during the month;~~
- ~~—where a branch manager is unable to conduct a review, all client and non-client accounts not reviewed by such branch manager which generated more than \$1,500 commissions during the month. This includes the accounts of branch managers.~~
- ~~—Concentration of securities must be reviewed.~~
- ~~—For all reviews, evidence must be kept of inquiries, responses and actions.~~
- ~~—Monthly reviews must be completed within 21 days of the period covered by the statements unless precluded by unusual circumstances.~~

V. OPTION ACCOUNT SUPERVISION

(abr. 00.00.00)

Introduction

~~—Each approved participant dealing in options must have an options principal with overall responsibility for the opening of new accounts and the supervision of account activity to ensure that all recommendations made for any account are and continue to be appropriate for the client and in keeping with his investment objective. In addition, there should be an alternate registered options principal to assist the registered options principal in his/her supervisory activities and to carry out the functions of the registered options principal in his/her absence. All reviews must be conducted by options qualified personnel.~~

A. Account Opening and Approval

- ~~1. The option trading agreement and option account approval form must be completed, signed and on hand prior to the first trade. This applies to new accounts or existing accounts approved for other products.~~
- ~~2. The option trading agreement contents must meet or exceed the Bourse requirements.~~
- ~~3. All clients must acknowledge in writing receipt of the current disclosure statement prior to effecting any trade.~~

- ~~4.—All accounts must be approved in writing by the option qualified branch manager or the registered options principal or the alternate registered options principal.~~
- ~~5.—The option account approval form must indicate any trading restrictions imposed.~~

~~**B.—Reviews of trading**~~

~~1.—Daily Reviews~~

~~Branch offices must review daily trading activity for suitability, position limits, exercise limits, concentration, commission activity, and exposure of uncovered positions.~~

~~The head office must review on a daily basis all opening option transactions in excess of ten contracts in any one account. For all options accounts, head office must review all trading and reports related to position limits in order to ensure that positions or exercise limits are not exceeded.~~

~~2.—Monthly Reviews~~

~~Branch offices must review on a monthly basis all option activity based on the same criteria as for regular equity trading activity.~~

~~The head office must review on a monthly basis all option activity based on the same criteria as for regular equity trading activity.~~

~~3.—Registered Options Principal Responsibilities~~

~~All discretionary and managed accounts must be reviewed by the registered options principal on a daily and monthly basis.~~

~~The registered options principal must establish procedures to ensure clients are notified of impending expiry dates.~~

~~The registered options principal must establish procedures ensuring for the dissemination of new developments in the trading and regulation of options contracts in a prudent and appropriate manner, and the dissemination to all clients of any changes in a firm's business policies.~~

~~The registered options principal must ensure that only approved individuals engage in trading or advising in respect to options.~~

~~All advertising and market letters sent to more than 10 clients relating to options, must be approved by the registered options principal.~~

~~Solicitation of clients to use option programs must be approved by the registered options principal.~~

VI. FUTURES AND OPTIONS ON FUTURES ACCOUNTS SUPERVISION
(abr. 00.00.00)

Introduction

~~—Each approved participant dealing in futures contracts or options on futures contracts must have an approved futures contract principal with overall responsibility for the opening of new futures contract and options on futures accounts and the supervision of account activity. In addition, there should be an alternate futures contracts principal to assist in supervisory activities and to carry out the functions of the futures contracts principal in his absence. The futures contracts principal must ensure that only approved individuals engage in trading or advising in respect to futures contracts and options on futures and that all recommendations made for any account are and continue to be appropriate for the client and in keeping with his investment objectives.~~

~~**A. Account Opening and Approval**~~

- ~~1. All accounts must be approved by a branch manager qualified as a futures contract and options on futures supervisor, the registered futures contracts principal or alternate registered futures contracts principal prior to trading.~~
- ~~2. All clients must acknowledge in writing receipt of the information statement prior to trading.~~
- ~~3. All clients must sign a futures contract and options on futures trading agreement or a letter of undertaking prior to trading. These documents must meet or exceed the Bourse requirements.~~
- ~~4. Before granting approval to a client as a bona fide hedger, procedures must be present for establishing acceptability of a client as a bona fide hedger including use of a hedge letter or statement and verification procedures.~~
- ~~5. Any trading restrictions which apply to the account must be written on the new account application form.~~

B. Review of Trading**1. Daily Reviews**

~~Approved participants must conduct daily reviews of all futures contracts and options on futures trading activity. This review is undertaken to attempt to detect the following:~~

- ~~— suitability;~~
- ~~— inappropriate trading strategies;~~
- ~~— position and exercise limits;~~
- ~~— front running;~~
- ~~— conflicts of interest;~~
- ~~— excessive commission activity;~~
- ~~— all guaranteed accounts;~~
- ~~— excessive day trading resulting in trading large numbers of contracts;~~
- ~~— trading while under margin;~~
- ~~— trading futures contracts or options on futures without approval;~~
- ~~— trading beyond margin or credit limits;~~
- ~~— cumulative losses exceeding stated risk capital (the aggregate of cumulative profits and cumulative losses).~~

2. Monthly Reviews

~~Approved participants must conduct monthly reviews for futures contracts and options on futures trading activity. For example, an approved participant must review:~~

- ~~— all guaranteed accounts;~~
- ~~— speculative trading in hedge accounts;~~
- ~~— cumulative losses exceeding stated risk capital (the aggregate of cumulative profits and cumulative losses);~~
- ~~— trading beyond approved limits;~~
- ~~— continual awareness of pending delivery months;~~
- ~~— acceptability of a client as bona fide hedger.~~

C. Discretionary accounts

~~—Futures contracts and options on futures discretionary accounts must meet all the requirements for equity discretionary accounts. In addition to the requirements for equity discretionary accounts, the registered futures contracts principal must conduct the following additional activities for futures contracts and options on futures:~~

- ~~—Discretionary authority must be accepted in writing by the registered futures contracts principal;~~
- ~~—the futures contracts principal must review monthly financial performance of each account.~~

VII. DISCRETIONARY AND MANAGED ACCOUNT SUPERVISION

~~(abr. 00.00.00)~~

Introduction

- ~~—Simple discretionary accounts are accounts where the discretionary authority has not been solicited.~~
- ~~—Managed accounts are investment portfolios solicited for discretionary management on a continuing basis where the approved participant has held itself out as having special skills or abilities in the management of investment portfolios.~~
- ~~—The approved participant must consent to accepting discretionary accounts and have the proper documentation and supervisory procedures in place to handle such accounts. A policy under which discretionary accounts are handled must be developed by the approved participant and distributed to all approved persons.~~

A. Simple Discretionary Accounts

- ~~1. Any request for discretion must be approved in writing by a partner, director or officer appointed as the designated person.~~
- ~~2. A discretionary account agreement must be signed by the client and the approved participant and must include any restrictions to the trading authorizations agreed to by the partner, director or officer.~~
- ~~3. No approved person may exercise discretionary authority over a client unless the account is maintained with the employer of the approved person.~~

B. Entry of Orders

- ~~1. All orders for discretionary accounts handled by registered representatives or investment representatives must be approved by a partner, director, branch manager or officer prior to their execution.~~
- ~~2. If securities of the approved participant or that of one of its affiliated corporation are publicly traded, no discretionary account may hold those securities.~~

C. Accounts Review

- ~~1. Discretionary client account reviews must include all discretionary accounts handled by registered representatives or investment representatives, branch managers, partners, directors and officers.~~
- ~~2. Persons conducting reviews must have adequate "Know Your Client" information readily available for each discretionary account.~~
- ~~3. The approved participant must identify in its books and records all discretionary accounts to ensure that proper review is carried on.~~

~~Note: Orders initiated for client accounts by branch managers and partners, directors and officers must be reviewed no later than next day by head office.~~

~~D. Termination of Agreement~~

~~—Either the client or the approved participant may cancel the authorization for discretion provided that it is in writing, giving an effective date which allows the client to make other arrangements. The approved participant must give the client 30 days notice.~~

~~E. Managed Accounts~~

~~—The approved participant must be approved by the Bourse to handle managed accounts and comply with all the requirements which are specifically detailed in the Rules and Policies of the Bourse. Only qualified portfolio managers may handle managed accounts.~~

~~F. Approval of Managed Accounts~~

- ~~1. Client must sign a managed account agreement.~~
- ~~2. The approved participant must accept all managed accounts in writing signed by a designated partner, director or officer. The authorization must indicate the client's investment objectives.~~
- ~~3. The approved participant must designate in writing one of the partners, directors or officers to assume supervisory responsibility for each managed account and the client must be informed in writing of the identity of that individual and of any subsequent changes thereto.~~

~~G. Restrictions for Managed Accounts~~

~~—The approved participant must not, without the written consent of the client, knowingly cause any managed account to:~~

- ~~a) invest in an issuing corporation in which a responsible person or an associate of a responsible person is an officer or director, and no such investment must be made even with the written consent of the client unless such office or directorship has been disclosed to the client;~~
- ~~b) purchase or sell the securities of any issuing corporation from or to the account of a responsible person, or from or to the account of an associate of a responsible person; or~~
- ~~c) make a loan to a responsible or to an associate of a responsible person.~~

~~H. Cancellation~~

~~—The approved participant must acknowledge in writing notice of cancellation by the client. The approved participant may terminate the arrangement in writing provided that it is not earlier than 30 days from the time of mailing.~~

VIII. CLIENT COMPLAINTS
(abr. 00.00.00)

~~—Each approved participant must establish procedures to deal effectively with client complaints.~~

- ~~1. Each approved participant must acknowledge receipt of all written client complaints.~~
- ~~2. Each approved participant must convey the results of its investigation of a client complaint to the client in due course.~~
- ~~3. Client complaints involving the sales practices of an approved participant, of its partners, directors, officers or representatives must be in writing, signed by the client, and then handled by qualified sales supervisors/compliance staff. Copies of all such written submissions must be filed with the compliance department of the approved participant.~~
- ~~4. Each approved participant must ensure that all pending legal actions are made known to the head office.~~
- ~~5. Each approved participant must ensure that registered representatives or investment representatives and their supervisors are made aware of all complaints filed by their clients.~~
- ~~6. Each approved participant must put procedures in place so that senior management is made aware of complaints of serious misconduct and of all legal actions.~~
- ~~7. Each approved participant must maintain an orderly record of complaints together with follow up documentation for regular internal/external compliance reviews. This record must cover the past two years at least.~~
- ~~8. Each approved participant must establish procedures to ensure that breaches of the Bourse Regulations as well as of applicable securities legislation be subjected to appropriate internal disciplinary procedures.~~
- ~~9. When an approved participant finds complaints to be significant weaknesses, internal procedures and practices should be reviewed, with recommendations for changes to be submitted to the appropriate management level.~~

POLICY C-4

ESTABLISHING AND MAINTAINING ADEQUATE INTERNAL CONTROLS

(26.01.96, 08.05.03, abr. 00.00.00)**INTRODUCTION**

~~—The purpose of this Policy is to provide some guidance on compliance with the requirement in article 7011 of the By-Laws and Rules of the Montreal Exchange that states "every member must establish and maintain adequate internal controls".~~

~~—Internal control is defined as follows:~~

~~—"Internal control consists of the policies and procedures established and maintained by management to assist in achieving its objective of ensuring, as far as practical, the orderly and efficient conduct of the entity's business. The responsibility for ensuring adequate internal control is part of management's overall responsibility for the day to day activities of the entity." (Canadian Institute of Chartered Accountants (CICA) Handbook, 5200.03)~~

~~—The effectiveness of specific policies and procedures is affected by many factors, such as management philosophy and operating style, the function of the board of directors (or equivalent) and its committees, organizational structure, methods of assigning authority and responsibility, management control methods, system development methodology, personnel policies and practices, management reaction to external influences, and internal audit. These and other aspects of internal control affect all parts of the member's firm.~~

~~A) In addition to compliance with required policies and procedures set out in this Policy, a member must consider the following, to the extent that they suggest a higher standard than would otherwise be required:~~

- ~~1. recommended provisions set out in this Policy;~~
- ~~2. authoritative literature such as the Internal Control Guidelines published by the Investment Dealers Association of Canada and publications of the Canadian Institute of Chartered Accountants;~~
- ~~3. comments on internal control that may have been made by internal and external auditors and by industry regulators, and actions that the member has taken as a result;~~
- ~~4. the balance struck between preventive and detective internal controls. "Preventive controls are those which prevent, or minimize the chance of occurrence of, fraud and error. Detective controls do not prevent fraud and error but rather detect them, or maximize the chance of their detection, so that corrective action may be promptly taken. The known existence of detective controls may have a deterrent effect, and be preventive in that sense". (CICA Handbook, 5205.13)~~

~~— The extent of preventive controls implemented by a member depends on management's view of the risk of loss and the cost-benefit relationship of controlling such risk. Where the inherent risk is high (e.g., cash, negotiable securities), the cost of effective preventive controls is usually warranted and expected by industry regulators. On the other hand, where the inherent risk is very low (e.g., prepaid expenses, membership titles), the cost of preventive controls is usually not warranted nor expected by industry regulators. Further, in a circumstance where a preventive control is warranted, a detective control must not be considered to be a suitable alternative unless it results in prompt detection of fraud or error and provides near certainty of recovery of the property that is the subject of the fraud or error.~~

~~— For example, the safeguarding of customers' segregated securities warrants the implementation of highly effective preventive controls. Accordingly, members safeguard such securities by placing them in recognized depositories whenever possible or storing them in bank and/or in-house vaults of an appropriate class suitable to insurers. It is not appropriate to keep such securities in standard filing cabinets even if such securities are counted monthly since the risk of loss is high and the possibility of recovery is very low; and~~

~~5. — industry practice.~~

~~B) — Determining whether internal control is adequate is a matter of judgment. However, internal control is not adequate if it does not reduce to a relatively low level the risk of failing to meet control objectives stated in this Policy and, as a consequence, one or more of the following conditions has occurred or could reasonably be expected to do so:~~

~~1. — a member is inhibited from promptly completing securities transactions or promptly discharging the member's responsibilities to clients, to other brokers, or to the industry;~~

~~2. — material financial loss is suffered by the member, clients or the industry;~~

~~3. — material misstatements occur in the member's financial statements; and~~

~~4. — violations of regulations occur to the extent that could reasonably be expected to result in the conditions described in 1) to 3) above.~~

~~C) — The various sections of this Policy set out control objectives, required and recommended firm policies and procedures, and indications that internal control is not adequate. While recommended firm policies and procedures will be appropriate in many cases to meet the stated objectives, they constitute merely one of a number of methods which members may utilize. It is recognized that members may conduct their business in compliance with legal and regulatory requirements although they may employ procedures which differ from the recommended firm policies and procedures contained in this Policy. The information is designed to provide guidance to members in the preparation of procedures tailored to the specific needs of their individual environment in meeting the stated control objectives.~~

~~—Members must maintain a detailed written record which as a minimum must include the specific policies and procedures approved by senior management to comply with this Adequate Internal Controls Policy. These policies and procedures must be reviewed and approved in writing by senior management at least annually, or more frequently as the situation arises, for their adequacy and suitability. One method of documentation is to note on a copy of this Statement the recommended policies and procedures which have been selected, and details of their performance such as who performs them, when, and how performance is evidenced. Other forms of documentation, such as procedures manuals, flow charts and narrative descriptions are recommended.~~

I. CAPITAL ADEQUACY

~~(abr. 00.00.00)~~

~~—This section focuses on the monitoring of an approved participant's capital position, principally through its system of management reporting. The effectiveness of such monitoring depends in large measure on the timeliness, completeness and accuracy of the accounting books and records from which those management reports are drawn. Establishing and maintaining policies and procedures to ensure such timeliness, completeness and accuracy is part of an approved participant's responsibility for internal control. However, these matters are outside the scope of the present section.~~

A) ~~Control objective~~

~~—To monitor and act upon information produced by the management reporting system so that Risk Adjusted Capital is maintained at all times in an amount at least equal to the minimum required by regulation.~~

B) ~~Minimum required approved participant policies and procedures~~

- ~~1. The Chief Financial Officer is responsible for continuous monitoring of the capital position of the approved participant to ensure that at all times Risk Adjusted Capital is maintained as prescribed by the Bourse regulation.~~
- ~~2. The approved participant's planning process recognizes the projected capital requirements resulting from current and planned business activities.~~
- ~~3. Activity limits for the major functional areas of the approved participant (such as capital markets, principal trading, borrowing/ lending, etc.) are designed to ensure that the combined operations of the approved participant maintain at least the minimum required amount of Risk Adjusted Capital.~~
- ~~4. Such activity limits are approved by senior management and communicated to the executives responsible for the various major functional areas. Actual performance is compared to such limits by the Chief Financial Officer or designated person assigned the task of monitoring the capital position, and breaches are reported promptly to senior management.~~
- ~~5. At least weekly, but more frequently if required (e.g. the approved participant is operating close to early warning levels or volatile market conditions exist), the Chief Financial Officer or designated person assigned the task for monitoring the capital position documents that he/she has:~~

- ~~a) received management reports produced by the accounting system showing information relevant to estimation of the capital position;~~
 - ~~b) obtained other information concerning items that, while they may not yet be recorded in the accounting system, are likely to significantly affect the capital position (e.g. bad and doubtful debts, unreconciled positions, underwriting and inventory commitments and margin requirements);~~
 - ~~c) estimated the capital position, compared it to planned capital limits and the prior period, and reported adverse trends or variances to senior management; and~~
 - ~~d) proceeded to the calculation of the liquidity and capital tests of level 1 and/or level 2 of the early warning in accordance with the provisions of article 7010. In addition, at least once a month, proceed to the calculation of the profitability tests of level 1 and/or level 2 of the early warning in accordance with the provisions of article 7010.~~
- ~~6. Senior management takes prompt action to avert or remedy any projected or actual capital deficiency and reports any deficiencies, when required, immediately to the appropriate regulators. In addition, senior management promptly reports to the Bourse any situations or circumstances that may have as a consequence to include the approved participant in level 1 or level 2 of the early warning following the application of the liquidity, capital or profitability tests of article 7010.~~
- ~~7. The month end estimate of required and Risk Adjusted Capital is reconciled to the Monthly Financial Report submitted for regulatory filing. Material discrepancies are investigated and steps taken to preclude re-occurrence.~~
- ~~8. At least annually, there is a documented supervisory review of the approved participant's management reporting system related to capital, to identify and implement changes required to reflect developments in the business or in regulatory requirements.~~

~~C) Indications that internal control is not adequate~~

- ~~1. The accounting system produces information that is late or requires correction.~~
- ~~2. Staff responsible for preparing Risk Adjusted Capital reports lack an understanding of the regulatory requirements.~~
- ~~3. The Chief Financial Officer or the person designated with the supervisory task of monitoring the capital position of the approved participant lacks an understanding of the business and of the different functional areas of the firm and cannot properly evaluate their activities level and capital/risk implications for the firm.~~
- ~~4. No steps are taken to establish the reliability of management reports utilized to monitor the capital position.~~
- ~~5. Planning procedures fail to take into account the impact of planned activities on required capital.~~
- ~~6. The approved participant is operating unexpectedly near its early warning levels.~~

~~7. The approved participant experiences significant unexpected changes in its capital position.~~

II. INSURANCE
(abr. 00.00.00)

A) Control Objective

~~To ensure that:~~

- ~~1. the member is in compliance with regulatory requirements for insurance;~~
- ~~2. other insurance coverage is in accordance with business needs; and~~
- ~~3. insurable losses are identified and claimed on a timely basis.~~

B) Minimum required firm policies and procedures

- ~~1. Insurance requirements and level of coverage are reviewed and approved at least annually by the member's Executive Committee or Board of Directors.~~
- ~~2. A Senior Officer of the firm is designated by the member's Executive Committee or Board of Directors as responsible for insurance matters.~~
- ~~3. The Senior Officer or designated person assigned the task reviews the terms of insurance policies regularly and ensures that the member's operating procedures are designed to result in compliance with policy terms and regulations.~~
- ~~4. The Senior Officer or designated person assigned the task monitors business changes to evaluate the need for changes in coverage or operating procedures.~~
- ~~5. The Senior Officer or designated person assigned the task monitors business operations to ensure that insured losses are identified, insurer notified and claimed on a timely basis and their effect on aggregate limits are taken into account.~~
- ~~6. Senior management takes prompt action to avert or remedy any projected or actual insurance deficiency and reports any deficiencies, when required, immediately to the appropriate regulators.~~

C) Indications that internal control is not adequate

- ~~1. Staff responsible for insurance matters are ill informed of their duties or insufficiently trained.~~
- ~~2. Material breaches of insurance policies which could result in denial of coverage are not detected on a timely basis.~~
- ~~3. No steps are taken to establish the reliability of reports utilized for the monitoring of variables that may affect insurance coverage.~~
- ~~4. Failure to report claims or failure to recover on claims thought to be covered.~~

~~5. Deficiencies in coverage are indicated on regulatory capital filings.~~

III. SEGREGATION OF CLIENTS' SECURITIES

~~(abr. 00.00.00)~~

A) ~~Control Objective~~

~~To segregate clients' fully paid and excess margin securities so that:~~

- ~~1. the member is in compliance with regulatory and legal requirements for segregation; and~~
- ~~2. fully paid and excess margin securities are not improperly used.~~

B) ~~Minimum required firm policies and procedures~~

- ~~1. At least twice weekly the information system produces a report of items requiring segregation (the "segregation report").~~
- ~~2. Items requiring segregation are placed in "acceptable securities locations" as defined by regulation on a timely basis.~~
- ~~3. Written custodial agreements with applicable regulatory provisions exist for securities held at acceptable securities locations.~~
- ~~4. Securities are moved into or out of segregation only by authorized personnel.~~
- ~~5. There is a daily supervisory review of compliance with segregation requirements for clients' securities according to the latest segregation report and of action taken to settle previously identified deficiencies.~~
- ~~6. If any segregation deficiency exists, the most appropriate action prescribed by regulation required to settle the deficiency is taken expeditiously.~~
- ~~7. There is supervisory review or other procedures in place to ensure the completeness and accuracy of segregation reports.~~
- ~~8. If any segregation deficiency is identified in such supervisory review, the most appropriate action required to settle the deficiency is taken expeditiously.~~
- ~~9. Management has set reasonable guidelines so that any material segregation deficiency is reported to senior management on a timely basis.~~
- ~~10. At least annually, there is a documented supervisory review of member policies and procedures to identify and correct any divergence from regulatory requirements.~~

~~C) — Indications that internal control is not adequate~~

- ~~1. — Insufficient attention is paid to preventing violations of legal and regulatory provisions concerning securities held in segregation, including preventing the hypothecation of fully paid and excess margin securities.~~
- ~~2. — Staff responsible for segregation procedures are ill-informed of their duties or insufficiently trained.~~
- ~~3. — No steps are taken to establish the reliability of segregation reports utilized (e.g. by a service bureau).~~
- ~~4. — Segregation deficiencies persist for an extended period of time without proper management attention.~~
- ~~5. — Securities are held at locations that do not meet the criteria of an acceptable securities location and/or without a written custodial agreement.~~

IV. SAFEKEEPING OF CLIENTS' SECURITIES
(abr. 00.00.00)

~~A) — Control objective~~

~~— To provide safekeeping services to clients so that:~~

- ~~1. — the member is in compliance with regulatory requirements for safekeeping; and~~
- ~~2. — securities in safekeeping are not improperly used.~~

~~B) — Minimum required firm policies and procedures~~

- ~~1. — Securities held in safekeeping are held pursuant to a written safekeeping agreement with the client.~~
- ~~2. — There are procedures in place to ensure that safekeeping securities are kept apart from all other securities.~~
- ~~3. — Securities held in safekeeping are recorded as such in the member's securities position records, client's ledger and statement of account.~~
- ~~4. — Securities held in safekeeping are released only on instruction from the client.~~

~~C) — Indications that internal control is not adequate~~

- ~~1. — Insufficient attention is paid to preventing violations of legal and regulatory provisions concerning securities held in safekeeping, including those requiring them to be:

 - ~~— a) — kept apart from all other securities held by the member;~~
 - ~~— b) — not used to finance the operations of the member;~~
 - ~~— c) — registered in the name of the client; and~~
 - ~~— d) — not released solely because the client has become indebted to the member.~~~~
- ~~2. — A client's power of attorney on hand for securities held in safekeeping is held by personnel having access to the securities.~~
- ~~3. — Physical access to securities held in safekeeping is not restricted to a minimum number of authorized persons.~~

V. SAFEGUARDING OF SECURITIES AND CASH

(abr. 00.00.00)

~~A) — Control objective~~

~~— To safeguard both member and client securities and cash so that:~~

- ~~1. — securities and cash are protected against material loss; and~~
- ~~2. — potential losses are detected and reported (for regulatory, financial and insurance purposes) on a timely basis.~~

~~B) — Minimum required firm policies and procedures~~

~~— It is recognized that members with small operations may not be able to comply with the segregation of duties requirements due to the limitation inherent to the size of their firm and operations. To the extent that these minimum requirements are inappropriate in the operations of such members, they would not be required to follow them and must implement compensating control procedures to meet the stated control objectives of this Policy.~~

~~1. — Receipt and delivery of securities~~

- ~~— a) Personnel responsible for the receipt and delivery of securities do not have access to the record keeping of such securities.~~
- ~~— b) Securities handling is done in a restricted and secure area.~~
- ~~— c) Receipts and deliveries are promptly and accurately recorded (certificate numbers, registrations, coupon numbers, etc.).~~
- ~~— d) Negotiable certificates delivered through the mail are sent by means of registered mail.~~

- ~~e) Signed receipts are obtained from the client or agent for all securities delivered free.~~
- ~~2. Restricted access to securities~~
 - ~~a) Only designated individuals are permitted to physically handle securities.~~
 - ~~b) Physical handling of securities is carried out in a restricted and secure area.~~
 - ~~c) Custody of securities is entrusted to individuals not involved in maintaining or balancing of stock records.~~
 - ~~d) Vault facilities are physically appropriate to the value and negotiability of the securities they contain.~~
- ~~3. Clearing~~
 - ~~a) Clearing reports containing the settlement activity from the previous day are compared and balanced to member's records promptly.~~
 - ~~b) The reconciliation of the clearing or settlement of accounts should be performed by member personnel independent of trading.~~
 - ~~c) Prompt action is taken to correct differences.~~
 - ~~d) Aged "fails" to deliver and receive reports are reviewed regularly to determine reason(s) for delay in settlement.~~
 - ~~e) Any fail that continues for an extended period of time is reported promptly to senior management.~~
 - ~~f) Client securities are not used in settling short "pro" sales unless the client's written permission has been obtained, appropriate collateral is provided to the client, and the use of such securities is not contrary to any laws.~~
 - ~~g) Clearing records are reconciled regularly to clearing house and depository records to ensure agreement of securities and cash on deposit.~~
- ~~4. Custody~~
 - ~~a) A risk assessment is performed on any securities location which holds securities on behalf of the member and its clients.~~
 - ~~b) Limits are set on the value of securities or other assets (e.g. gold, letters of credit, dividends, interest, etc.) held at any securities location.~~
 - ~~c) The member has a proper written agreement with each acceptable securities location used to hold securities as required by the Exchange regulation.~~

~~d) Processing controls include an adequate division of duties over the recording of entries and over the initiation of transfers made on the records of the depositories (e.g. transfers between "free" and "seg").~~

~~e) Security and other asset positions as per the member's records are reconciled on a regular basis (at least monthly) to the positions as per the custodian's records. Differences are investigated and appropriate adjustment entries made.~~

5. ~~Security records~~

~~a) Personnel responsible for maintaining and balancing stock records are not involved in custody of the physical securities.~~

~~b) Stock records are promptly updated to reflect changes in the location and ownership of all securities under the member's control.~~

~~c) Journal entries made to stock records are clearly identified and adjustments are properly reviewed and approved before processing.~~

6. ~~Security Counts~~

~~a) Segregated and safekeeping securities are counted at least once a year in addition to the count conducted during the annual external audit as required by the Exchange regulation.~~

~~b) Securities contained in current boxes are counted at least monthly.~~

~~c) Interim surprise counts are conducted by individuals other than those who have custody of securities.~~

~~d) Count procedures ensure that all physical securities are included and related positions such as transit and transfers are also verified simultaneously.~~

~~e) During a security count, both the description of the security and quantity should be compared to the records of the member. Any discrepancies should be investigated and corrected promptly. Positions not reconciled within a reasonable period are reported promptly to senior management and accounted for promptly.~~

7. ~~Branch transits~~

~~a) Separate transit accounts are used on the security position records to record the location of certificates in transit between each office of the member. These accounts are reconciled on a monthly basis.~~

~~b) Entries are made to book out securities to or from the branch to the transit account, and then upon physical receipt, the securities are booked from the transit account to the receiving branch.~~

~~c) The receiving branch checks securities received against the accompanying transit sheet.~~

~~d) Methods of transportation selected for securities in transit comply with insurance policy terms and take into account value, negotiability, urgency, and cost factors.~~

~~8. Transfers~~

~~a) A record is maintained showing all securities sent to and held by transfer agents.~~

~~b) Authority to request transfers into a name other than the member's name is restricted to designated individuals outside the transfer department and is permitted only in respect of fully paid securities (new issues excepted).~~

~~c) The transfer department executes transfers only upon receipt of a properly authorized request.~~

~~d) Securities out for transfer are recorded as such in the member's security position record.~~

~~e) All positions for securities at transfer agents are supported by a receipt.~~

~~f) An aging of all transfer positions is prepared weekly and reviewed by management to verify the validity of the positions and the reasons for any undue delay in receiving securities from transfer agents.~~

~~g) The duties of personnel handling transfers do not include other security cage functions such as deliveries, current box or segregation.~~

~~9. Reorganization~~

~~a) A formal procedure exists to identify and document the timing and terms of all forthcoming rights, offers, etc.~~

~~b) There is a clear method of communicating forthcoming reorganization activity to the sales force, including deadlines for submitting special instructions in writing including any special handling procedures required around the key dates.~~

~~c) Responsibilities for organizing and handling each offer are clearly assigned to a single person or department.~~

~~d) Procedures to balance positions daily and to provide for the physical control of these securities are clearly defined.~~

~~e) Suspense accounts involving offers and splits are reconciled and reviewed regularly.~~

~~10. Dividends and interest~~

~~a) A system is in place to record the total amounts of dividends and interest payable and receivable at due date.~~

~~b) Individuals in charge of record keeping do not handle cash or authorize payments.~~

- ~~c) Dividend and interest accounts are reconciled at least monthly and reviews performed of aged dividend receivables.~~
- ~~d) Write offs are authorized by the department manager or other senior personnel only.~~
- ~~e) Journal entries to and from dividend and interest accounts are approved by the supervisor/manager.~~
- ~~f) Other than as part of an automatic settlement system, dividend claims are not paid unless accompanied by supporting documents, proof of registration, etc. Such supporting documents are compared to internal records for validity and approved by a senior person of the department.~~
- ~~g) Non resident tax is withheld where applicable by law.~~
- ~~h) A system is in place to ensure appropriate reporting of client income for income tax purposes, as required by law.~~

11. ~~Internal accounts~~

- ~~a) Internal accounts are reconciled at least monthly.~~
- ~~b) The reconciliation is subject to a supervisory review.~~

12. ~~Cash~~

- ~~a) A Senior Officer is responsible for reviewing and approving all bank reconciliations.~~
- ~~b) Bank accounts are reconciled, in writing, at least monthly, with an identification and dating of all reconciling items.~~
- ~~c) Journal entries to clear reconciling items are made on a timely basis and approved by management.~~
- ~~d) The reconciliation of bank accounts is performed by someone without incompatible functions, including access to funds (both receipts and disbursements), access to securities and record keeping responsibilities, including the authority to write or approve journal entries.~~
- ~~e) Approval levels required to requisition a cheque are established by senior management.~~
- ~~f) Cheques are pre-numbered and numerical continuity is accounted for.~~
- ~~g) Cheques are signed by two authorized individuals.~~
- ~~h) Cheques are only signed when the appropriate supporting documentation is provided. The supporting documentation is cancelled after the cheque is signed.~~
- ~~i) Where facsimile signature is used, access to the machine is limited and supervised.~~

~~C) Recommended firm policies and procedures~~

~~1. Messengers~~

- ~~a) Background checks are performed when messengers are hired to ensure their integrity and reliability.~~
- ~~b) Messengers receive adequate training.~~
- ~~c) Messengers perform an initial inspection of cheques and securities received for quantity, amount, description, negotiability, etc.~~
- ~~d) Messengers obtain a receipt or valid security of equivalent value upon delivery of cheques or securities.~~
- ~~e) Management sets carrying limits and monitors them to ensure compliance with insurance policy terms.~~

~~D) Indications that internal control is not adequate~~

- ~~1. There is a significant number and dollar value of unreconciled positions and balances.~~
- ~~2. Significant differences in reconciliations are not resolved on a timely basis.~~
- ~~3. A large number of staff is involved in reconciling positions.~~
- ~~4. Material losses have occurred.~~

POLICY C-10
(06.03.02, abr. 00.00.00)

INTERNAL CONTROL POLICY
PRICING OF SECURITIES

~~A) Control objective~~

~~—To ensure that:~~

- ~~a) there is independent and timely verification of securities prices to detect errors or omissions in the pricing of securities;~~
- ~~b) securities pricing discrepancies are identified and corrected on a timely basis and reviewed and approved by senior management;~~
- ~~c) there is consistency of procedures in the pricing of all types of securities;~~
- ~~d) there is accuracy and completeness of the pricing of securities and the reliability of prices is ensured.~~

~~B) Minimum required approved participant policies and procedures~~

- ~~1. Information sources used for the approved participant's pricing records should be reputable and independently verifiable. The continued use of these pricing sources should be reviewed on an annual basis by senior management to ensure that they are still appropriate and meet the needs of the approved participant.~~
- ~~2. Verification of securities prices must take into consideration internal approved participant policies as to criteria in determining the market value of securities consistent with the Rules and Policies of the Bourse.~~
- ~~3. There should be well documented procedures in place to ensure appropriate pricing for all security records of the approved participant for purposes of preparing management reports used to monitor profit and loss, and the regulatory capital position of the approved participant. These functions must be performed by a knowledgeable, authorized individual who is properly supervised.~~
- ~~4. Personnel involved with trading of securities should not have access to back office security price records and should not be involved in the pricing process, recording and storage of pricing data and, if they are involved, there should be compensating controls, appropriate review and approval.~~
- ~~5. Independent security pricing verification must be carried out for each month end at a minimum. The results of the verification procedures must include quantification of all differences (distinguishing between adjusted and unadjusted differences) and follow up of any material differences to the approved participant including a review and approval by senior management.~~
- ~~6. Supporting documentation must be maintained evidencing verification of securities pricing and adjustments.~~

- ~~7. Procedures must be in place to ensure daily mark to market of an approved participant's securities positions "long and short" for profit and loss reporting in accordance with the Bourse requirements.~~
- ~~8. Approved participant inventory profit and loss information must be reviewed by knowledgeable and authorized staff who are adequately supervised and are independent of the approved participant's trading function.~~

~~**C) Indications that internal control is not adequate**~~

- ~~1. Inconsistent methods used to value and report client security portfolio (last sale price, last bid or ask price).~~
- ~~2. No evidence of a review of "flagged" security price over rides on Electronic Data Processing reports, or audit trail of price change.~~
- ~~3. High error rate on margin calls and/or collateral re pricing of financing transactions.~~
- ~~4. Unexplained fluctuation in trader inventory profit and loss trading.~~
- ~~5. Foreign exchange security denomination not considered in security pricing.~~
- ~~6. Security price information provided by independent vendor service is effectively based on the price information supplied by the approved participant itself due to its market share or trading as market maker in a specific security or group of securities.~~
- ~~7. The existence of more than one price for the same security on management reports.~~
- ~~8. Numerous back dated adjustments to correct security price information.~~
- ~~9. No procedures for new product development initiation and rollout within the approved participant's organization and no evidence of management review and approval.~~
- ~~10. Lack of segregation of duties.~~

POLICY C-11
(06.03.02, abr. 00.00.00)

INTERNAL CONTROL POLICY
ON DERIVATIVE RISK MANAGEMENT

~~A) Control objective~~

~~— Derivatives are instruments whose values are derived from, and reflect changes in, the prices of the underlying products. They are designed to facilitate the transfer and isolation of risk and may be used for both risk transfer and investment purposes. This Policy applies to all types of derivatives, whether they are traded on an exchange or over the counter.~~

~~— The control objective is to ensure that:~~

- ~~a) there is a risk management process of identifying, measuring, managing and monitoring risks associated with the use of derivatives;~~
- ~~b) management demonstrates its understanding of the nature and risks of all derivative products being used in treasury and trading activities;~~
- ~~c) written internal policies and procedures exist that clearly outline risk management guidance for derivatives activities.~~

~~B) Minimum requirements with respect to internal policies and procedures of the approved participant~~

~~1. Role of the Board of Directors~~

- ~~i) Approve all significant risk management policies to ensure that they are consistent with the broader business strategies of the approved participant.~~
- ~~ii) Review and amend these internal policies when business and market circumstances change.~~
- ~~iii) At least once a year, obtain from the Senior Management a report to the Board on risk exposures taken by the approved participant.~~

~~2. Role of senior management~~

~~— Senior management is responsible for ensuring that:~~

~~i. there are adequate written internal policies and procedures for conducting derivatives operations on both day-to-day and long-range basis. This includes:~~

- ~~(1) a clear demarcation of the lines of responsibility for managing risk;~~
- ~~(2) an adequate system for measuring risk;~~
- ~~(3) appropriate position and financial risk limits;~~
- ~~(4) an efficient system of internal control;~~

~~(5) a comprehensive reporting process.~~

~~ii. If limits are exceeded, there is a system in place so that such occurrences are being known to senior management and approved only by authorized personnel.~~

~~iii. All appropriate approvals are obtained and adequate operational procedures and risk control systems are in place.~~

~~iv. Risk control systems are appropriate for the products in place to address market, credit, legal, operations and liquidity risk.~~

~~v. Derivatives activities are undertaken by professionals in sufficient number and with the appropriate experience, skill levels and degrees of specialization.~~

~~vi. Management has designated the appropriate officer to commit the approved participant to derivatives transactions.~~

~~vii. There is a regular evaluation of the procedures in place to manage risk to ensure that those procedures are appropriate and sound.~~

~~viii. All standard and non-standard derivatives products are approved by senior management.~~

~~ix. There is an accurate, complete, informative and timely management information system. The risk management function should monitor and report its measures of risks to appropriate levels of senior management and to the Board of Directors of the approved participant.~~

3. Pricing

~~i. Derivatives positions should be marked to market at least on a daily basis.~~

~~ii. All pricing models used must be independently validated, including such models that compute market data or model inputs. A risk management function must review and approve the pricing models and valuation systems used by front office and back office and the development of reconciliation procedures if different systems are used.~~

~~iii. Valuations derived from models must be scrutinized at least monthly.~~

4. Independent risk management

~~i. Approved participants must have a risk management function, with independence and authority, in order to ensure the development of internal risk limit policies and monitor transactions and positions for adherence to such policies.~~

~~ii. The financial accounting departments of the approved participants must measure the components of revenue regularly and in sufficient detail to understand the sources of risk.~~

C) Indications that internal control is not adequate

~~1. The approved participant does not have a risk management philosophy of identification, measurement, management and monitoring of risks.~~

- ~~2. The approved participant does not have internal written policies on the use and marketing of derivatives instruments.~~
- ~~3. The approved participant does not have an internal written policy on preparing deal and booking memoranda that explains the business purposes and profitability of a transaction as well as the recording of the transaction (from a financial and regulatory perspective).~~
- ~~4. The approved participant utilizes models to mark instruments to market and those models are not independently verified. The market input parameters, such as yields and volatility, are not periodically (at least once a month) independently scrutinized.~~
- ~~5. Financial reporting personnel has some difficulties explaining major derivatives profit and loss changes as well as the components of such gain or loss.~~
- ~~6. Financial reporting personnel has some difficulties preparing financial disclosure on a timely basis.~~
- ~~7. The approved participant has not established off market pricing internal and written policies for independent assessment and approval.~~
- ~~8. The approved participant does not have an independent risk management process reporting to the senior management or Board of Directors.~~
- ~~9. The approved participant does not have master netting agreements and various credit risk enhancements (such as collateral or third party guarantees) to reduce its counterparty credit risk.~~
- ~~10. The approved participant does not have any guidelines and processes in place to ensure the enforceability of counterparty agreements.~~

POLICY C-12
(23.08.02, ABR. 00.00.00)

**MINIMUM REQUIREMENTS FOR SUITABILITY RELIEF CONCERNING TRADES NOT
RECOMMENDED BY AN APPROVED PARTICIPANT**

~~—The present Policy establishes the documentary, procedural and systems requirements for approved participants to receive approval to accept orders from a customer without a suitability determination where no recommendation is provided by the approved participant.~~

~~—In this Policy, "order execution service" means the acceptance and execution of orders from customers for trades that the approved participant has not recommended and for which the approved participant takes no responsibility as to the appropriateness or suitability of the trades to the customer's financial situation, investment knowledge, investment objectives and risk tolerance.~~

~~**A. Minimum requirements for approved participants offering solely an order-executing service**~~

~~**1. Approved Participant Structure and Compensation**~~

- ~~a) The approved participant must operate either as a legal entity or through a separate business unit which provides only order execution services.~~
- ~~b) If operated through a separate business unit of the approved participant, the order execution service must have separate letterhead, accounts, registered representatives, investment representatives and account documentation.~~
- ~~c) The registered representatives and investment representatives of the approved participant or separate business unit of the approved participant must not be compensated on the basis of transactional revenues.~~

~~**2. Written Policies and Procedures**~~

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

~~**3. Account Opening**~~

- ~~a) At the time an account is opened, the approved participant or separate business unit of the approved participant must make a written disclosure to the customer advising that the approved participant or separate business unit of the approved participant will not provide any recommendations to the customer and will not be responsible for making a suitability determination of trades when accepting orders from the customer. Such disclosure must clearly explain to the customer that the customer alone is responsible for his own investment decisions~~

and that the approved participant will not consider the customer's financial situation, investment knowledge, investment objectives and risk tolerance when accepting orders from the customer.

- b) ~~At the time an account is opened, the approved participant or separate business unit of the approved participant must obtain an acknowledgement from the customer that the customer has received and understood the disclosure described in paragraph 3 a). For accounts such as joint and investment club accounts having more than one direct beneficial owner, the approved participant must obtain an acknowledgement from all beneficial owners.~~
- c) ~~Prior to operating an existing account under the approval granted by this Policy, the approved participant or separate business unit of the approved participant must provide the disclosure described in paragraph 3 a) to the customer and obtain the acknowledgement described in paragraph 3 b).~~
- d) ~~The acknowledgement obtained under paragraphs 3 b) and 3 c) must take the form of a formal confirmation by the customer(s), a record of which must be maintained by the approved participant in an accessible form. Possible forms of the acknowledgement are:
 - i) ~~the customer's signature or initials on a new customer application form or similar document, provided that such signature or initials specifically relate to the required disclosure and acknowledgement;~~
 - ii) ~~the clicking of an appropriately labelled button on an electronic account application form, placed directly under the disclosure and acknowledgement text; or~~
 - iii) ~~the tape recording of a verbal acknowledgement made by telephone.~~~~

4. ~~Supervision~~

- a) ~~The approved participant or separate business unit of the approved participant must have written procedures for the supervision of trading designed to ensure that customers are not using recommendations received through an advisory service offered by a separate business unit of the approved participant, to trade on an account held through an order execution service, when the approved participant or separate business unit of the approved participant has reasons to believe that it is the case.~~
- b) ~~The approved participant or separate business unit of the approved participant must have written procedures and systems in place to review customer trading and accounts for those concerns listed in Policy C-2 of the Bourse, other than those related solely to suitability.~~
- c) ~~The approved participant or separate business unit of the approved participant must maintain an audit trail of supervisory reviews, as required in Policy C-2 of the Bourse.~~
- d) ~~The approved participant or separate business unit of the approved participant must have sufficient supervisory resources allocated at head office and branch levels to effectively implement the supervisory procedures required under this Policy.~~

5. ~~Systems, Books and Records~~

- ~~a) The order entry systems and records of the approved participant or separate business unit of the approved participant must be capable of labelling all account documentation relating to customers, including monthly statements and confirmation slips, as "order execution only accounts".~~
- ~~b) The monthly statements of a separate business unit of an approved participant must not be consolidated with the account statements of any other business unit of the approved participant or of the approved participant itself.~~

~~**B. Minimum requirements for approved participants offering both an advisory and an order-execution service**~~

~~1. Terminology~~

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

~~2. Written Policies and Procedures~~

- ~~a) The approved participant must have written policies and procedures covering all the matters outlined in the present Policy.~~
- ~~b) The approved participant must have a program for communicating those policies and procedures to all its registered representatives and investment representatives and ensuring that they are understood and implemented.~~

~~3. Account Opening~~

- ~~a) At the time an account is opened, the approved participant must provide a written disclosure to the customer advising him that the approved participant will not be responsible for making a suitability determination when accepting an order from the customer which was not recommended by the approved participant or a registered representative or investment representative of the approved participant. Such disclosure must clearly explain to the customer that the customer alone is responsible for his own investment decisions and that the approved participant will not consider the customer's financial situation, investment knowledge, investment objectives and risk tolerance when accepting orders from the customer. Such disclosure must also include a brief description of what does or does not constitute a recommendation and instructions on how the customer can report trades which have not been accurately designated as recommended or non recommended.~~
- ~~b) At the time an account is opened, the approved participant must obtain an acknowledgement from the customer that the customer has received and understood the disclosure described in paragraph 3 a). For accounts such as joint and investment club accounts having more than one direct beneficial owner, the approved participant must obtain the acknowledgement from all beneficial owners.~~
- ~~c) Prior to operating an existing account under the approval granted by this Policy, the approved participant must provide the disclosure described in paragraph 3 a) to the customer and obtain the acknowledgement described in paragraph 3 b).~~

- d) ~~The acknowledgement obtained under paragraphs 3 b) and 3 c) must take the form of a formal confirmation by the customer(s), a record of which must be maintained by the approved participant in an accessible form. Possible forms of the acknowledgement are:~~
 - i) ~~the customer's signature or initials on a new customer application form or similar document, provided that such signature or initials specifically relate to the required disclosure and acknowledgement;~~
 - ii) ~~the clicking of an appropriately labelled button on an electronic account application form, placed directly under the disclosure and acknowledgement text; or~~
 - iii) ~~the tape recording of a verbal acknowledgement made by telephone.~~

4. ~~Supervision~~

- a) ~~The approved participant must have written procedures for the supervision of trading designed to ensure that orders are marked accurately as being recommended or non recommended.~~
- b) ~~The approved participant must also have written procedures for the selection of accounts to be subject to a monthly review at least equivalent to those required by Policy C 2 of the Bourse. The selection of accounts to be subject to a monthly review must not have regard to whether the trades in the account are marked as recommended or non recommended. The account review must include a determination whether the overall composition of the customer's portfolio no longer conforms to the documented objectives and risk tolerance of the customer and, when it does not, the procedures must specify the steps to be taken for eliminating the disparity.~~
- c) ~~The approved participant must maintain an audit trail of supervisory reviews, as required in Policy C 2 of the Bourse.~~
- d) ~~The approved participant must have sufficient supervisory resources allocated at head office and branch levels to effectively implement the supervisory procedures required under this Policy.~~

5. ~~Systems, Books and Records~~

- a) ~~The approved participant's order entry systems and records must be capable of recording whether each order is being done on a recommended or non recommended basis. If the approved participant permits some customers to enter orders on line for direct transmission to a trading system, the order entry system must require the customer to indicate whether the trade was recommended or non recommended. If there is default marking, it must be "recommended".~~
- b) ~~The approved participant must disclose on the confirmation for each trade done in an account whether the transaction was recommended or non recommended.~~
- c) ~~The approved participant must disclose on the monthly statement whether each trade was executed on a recommended or non recommended basis, but is not required to disclose on monthly statements which securities positions resulted from each type of trade.~~
- d) ~~The approved participant must maintain records of complaints and requests from customers to change the designation of a trade as recommended or non recommended.~~

- ~~e) — The approved participant must be able to generate reports enabling supervisors to check the accuracy of recommended/non-recommended disclosure on orders. Possible methods of meeting this requirement are included as Appendix A to this Policy.~~
- ~~f) — The approved participant's system must be able to select accounts or generate exception reports to show accounts requiring review, as specified in its policies and procedures and in Policy C-2 of the Bourse, without regard to whether the trades were marked as recommended or non-recommended.~~

APPENDIX A – POLICY C-12

**Supervision of accuracy of recommended or
non-recommended trade basis reporting for approved
participants granted approval under Policy C-12**

~~Under section B. 4 a) of Policy C-12, approved participants must have procedures for the supervision of trading designed to ensure the accuracy of the marking of customer orders as being recommended or non-recommended. Under section B. 5 e) of this same Policy C-12, approved participants must have systems capable of generating reports which will enable supervisors to conduct efficient supervision.~~

~~While approved participants must, subject to the approval of Bourse de Montréal Inc., design their own procedures and reports in compliance with Policy C-12, the following are examples of reports and procedures which would meet the requirements of Policy C-12.~~

- ~~1. Reports used in required daily trading reviews should indicate whether a trade has been designated as recommended or non-recommended.~~
- ~~2. Procedures should direct those reviewing reports used in daily trade supervision to look for patterns suggestive of inaccurate designation of trade basis, such as:

 - ~~a) trades by more than one customer of a registered representative or investment representative in the same security on the same day being designated as non-recommended. Where such situations occur, there should be a reasonable explanation such as widespread holding or trading of the stock;~~
 - ~~b) trades in securities that are the subject of research reports issued or distributed by the approved participant, or with respect to which the approved participant has recently changed its research recommendation. While the issuance of a research report or general recommendation is not determinative that there has been a recommendation made to a specific customer, trades in such securities marked as non-recommended may be questioned in relation to the registered representative or investment representative tendency to make use of the approved participant's recommendations in dealings with customers;~~
 - ~~c) cross trades between customer accounts of the same registered representative or investment representative all shown as non-recommended.~~~~
- ~~3. The approved participant should be able to generate statistical or exception reports capable of revealing patterns of trade designation to be reviewed for possible inaccuracy, for example:

 - ~~a) a percentage of trades designated as recommended or non-recommended by a registered representative and a branch office. Depending on the nature of the business of the registered representative, investment representative or branch office, a high percentage of trades designated as non-recommended may indicate inaccurate marking;~~~~

- ~~b) a percentage of trades in particular securities designated as recommended or non-recommended. A high percentage of trades in some securities marked as non-recommended, such as those being recommended in the approved participant's research, may be indicative of inaccurate marking. Such reports may also identify frequent trades by particular branch offices, registered representatives or investment representatives in one security, which are all marked as non-recommended but occur over more than one day. Such a pattern may require further investigation by the approved participant but is not determinative that the trades are inaccurately marked;~~
 - ~~c) numbers of complaints or reports from customers that trades are inaccurately marked, which show any frequency of complaints about a particular registered representative, investment representative or branch office.~~
- ~~4. The approved participant's procedures should provide instructions to supervisors on the review of statistical and exception reports, on steps to be taken to investigate any reasonable patterns and on audit trail requirements. Audit trails should include a record of questions asked, answers given and action taken in reviews conducted under Policy C-2 of the Bourse.~~
- ~~5. Where compliance procedures under this Policy are conducted at the branch office level, the approved participant should have head office review procedures sufficient to ensure that the supervisory requirements are being properly executed at the branch level.~~

POLICY C-13
(21.11.03, 00.00.00)

RESPONSIBILITIES OF THE CHIEF COMPLIANCE OFFICER AND ULTIMATE DESIGNATED PERSON

I. DEFINITIONS

(abr. 00.00.00)

~~—"Designated person" means either:~~

~~a) an ultimate designated person who is either:~~

~~i) chief executive officer;~~

~~ii) president;~~

~~iii) chief operating officer;~~

~~iv) chief financial officer; or~~

~~v) Such other officer designated with the equivalent supervisory and decision-making responsibility who has been granted approval by the Bourse to act as the ultimate designated person;~~

~~b) an alternate designated person who:~~

~~i) has been appointed by the approved participant to ensure continuous supervision;~~

~~ii) is approved as a partner, director, officer or is in the process of applying as one; and~~

~~iii) who has been granted approval by the Bourse to act as an alternate designated person; or~~

~~c) except where expressly prohibited, a chief compliance officer who:~~

~~i) has been appointed by the approved participant;~~

~~ii) has been approved as a partner, director, officer or is in the process of applying as one; and~~

~~iii) has been granted approval by the Bourse to act as chief compliance officer.~~

II. RESPONSIBILITIES

(abr. 00.00.00)

~~1. Every approved participant must designate its chief executive officer, president, chief operating officer or chief financial officer (or such other officer designated with the equivalent supervisory and decision-making responsibility) to act as ultimate designated person, who shall be responsible to the Bourse for the conduct of the approved participant and the supervision of its employees.~~

- ~~2. Where an approved participant is organized into two or more separate business units or divisions, such approved participant may designate an ultimate designated person for each separate business unit or division.~~
- ~~3. Every approved participant must appoint an alternate designated person, who must be so approved, to act as chief compliance officer.~~
- ~~4. Notwithstanding section 3, an approved participant may appoint the ultimate designated person to act as chief compliance officer.~~
- ~~5. Where an approved participant is organized into two or more separate business units or divisions, such approved participant may designate a chief compliance officer for each separate business unit or division.~~
- ~~6. Every approved participant must also appoint as many additional alternate designated persons as is necessary, given the scope and complexity of its businesses, who must be partners, directors or officers of the approved participant.~~
- ~~7. The alternate designated person must report to the ultimate designated person, as necessary, in order to ensure that the businesses of the approved participant are carried out in compliance with applicable rules, regulations and policies.~~
- ~~8. The chief compliance officer must report to the board of directors (or equivalent) of the approved participant, as necessary but at least once a year, on the status of compliance at the approved participant.~~
- ~~9. The board of directors (or equivalent) must review the report of the chief compliance officer and determine what actions are necessary and ensure such actions are carried out in order to address any compliance deficiencies noted in the report.~~
- ~~10. The ultimate designated person must ensure that the policies and procedures are developed and implemented to adequately reflect the regulatory requirements of the approved participant.~~
- ~~11. The chief compliance officer must monitor adherence to the approved participant's policies and procedures as necessary in order to ensure that the management of the compliance function is effective and in order to provide reasonable assurance that the standards of the Rules and Policies of the Bourse are met.~~
- ~~12. Every approved participant must file with the Bourse:
 - ~~i) a copy of a governance document setting out the organizational structure and reporting relationships, which support the compliance arrangement set out above; and~~
 - ~~ii) a notice of any material changes to the organizational structure and reporting relationships as set out in sub paragraph i) of the present section.~~~~

POLICY C-15
(26.03.03, abr. 00.00.00)

ELECTRONIC DELIVERY OF DOCUMENTS

INTRODUCTION

~~Considering that technology is an important tool and that electronic delivery of documents must be encouraged as it provides a more cost efficient, timely and widespread manner of disseminating information than the traditional paper regime, the present Policy sets out the guidelines applicable to the electronic delivery of information between approved participants and their clients.~~

~~The intent of this Policy is to set out guidelines while allowing approved participants to determine how they wish to comply with applicable legislation to the delivery of documents to security holders.~~

1. Protection of personal information

~~(abr. 00.00.00)~~

- ~~a) Approved participants sending personal financial information, such as confirmations and statements of account, through electronic means must take reasonable precautions to ensure the integrity, the confidentiality, and the security of that information.~~
- ~~b) Approved participants transmitting personal financial information electronically must tailor those precautions to the medium used to ensure that the information is reasonably secure from tampering or alteration.~~

2. Review of an electronic delivery system

~~(abr. 00.00.00)~~

- ~~a) Before operating an electronic delivery system, approved participants must provide a written notice to the Bourse.~~
- ~~b) This notice must include a description outlining the degree to which the approved participant's electronic delivery system complies with the guidelines contained in the Notice 11-201 relating to the delivery of documents by electronic means and an explanation of any deviation from those guidelines.~~
- ~~c) The approved participant must also enclose with his notice the following information and documents:
 - ~~i) the documents to be transmitted electronically and the information contained therein;~~
 - ~~ii) the method of electronic delivery of documents;~~
 - ~~iii) a copy of electronic forms and Web site screens to be used by the approved participant;~~~~

- ~~iv) procedures for obtaining the client's consent and the form of such consent;~~
- ~~v) procedures outlining adequate record retention and audit trails;~~
- ~~vi) back up procedures in the event of a technical failure;~~
- ~~vii) procedures to address the availability of access to electronic documents by third parties;~~
- ~~viii) a mention of the situations where it is important that notices to clients be duly acknowledged and that back up procedures be in place to ensure that the notice comes to the attention of the clients.~~