December 31, 2021

MUTUAL FUND DEALERS ASSOCIATION OF CANADA/

ASSOCIATION CANADIENNE DES COURTIERS DE FONDS MUTUELS

RULES

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MUTUAL FUND DEALERS ASSOCIATION OF CANADA

1. RULE NO. 1 – BUSINESS STRUCTURES AND QUALIFICATIONS

1.1 BUSINESS STRUCTURES

1.1.1 Members

No Member or Approved Person (as defined in By-law 1.1) in respect of a Member shall, directly or indirectly, engage in any securities related business (as defined in By-law 1.1) except in accordance with the following:

(a) all such securities related business is carried on for the account of the Member, through the facilities of the Member (except as expressly provided in the Rules) and in accordance with the By-laws and Rules, other than:

(i) such business as relates solely to trading in deposit instruments conducted by any Approved Person not on account of the Member; and

(ii) such business conducted by an Approved Person as an employee of a bank and in accordance with the Bank Act (Canada) and the regulations thereunder, or as an employee of a credit union or caisse populaire and in accordance with applicable legislation governing such credit union or caisse populaire, and in each case, in accordance with applicable securities legislation.

(b) all revenues, fees or consideration in any form relating to any business engaged in by the Member is paid or credited directly to the Member and is recorded on the books of the Member;

(c) the relationship between the Member and any person conducting securities related business on account of the Member is that of:

(i) an employer and employee, in compliance with Rule 1.1.4,

(ii) a principal and agent, in compliance with Rule 1.1.5, or

(iii) an introducing dealer and carrying dealer, in compliance with Rule 1.1.6;

(d) the business or trade or style name under which such securities related business is conducted is in accordance with Rule 1.1.7.

1.1.2 Compliance by Approved Persons

Each Approved Person who conducts or participates in any securities related business in respect of a Member in accordance with Rule 1.1.1.(c)(i) or (ii) shall comply with the By-laws and Rules as they relate to the Member or such Approved Person.

1.1.3 Service Arrangements

A Member or Approved Person may engage the services of any person including another Member or Approved Person, to provide services to the Member or Approved Person, as the case may be, provided that:

(a) the services do not in themselves constitute securities related business or duties or responsibilities that are required to be performed by the Member or Approved Person engaging the services pursuant to the By-laws, Rules or applicable securities legislation;

(b) any remuneration or compensation in any form in respect of such services shall only be paid or credited by the Member or Approved Person engaging the services, as the case may be, directly to the person providing the services and the payment or credit of such remuneration or compensation shall be recorded in the books and records required to be maintained in accordance with the By-laws and Rules by the Member or Approved Person engaging such services;

(c) the Member or Approved Person engaging the services shall remain responsible for compliance with the By-laws and Rules and any applicable legislation;

(d) any person preparing and maintaining books and records as a service in respect of the business of the Member or Approved Person shall do so in accordance with the requirements of Rule 5, and such books and records shall be available for review by the Member or Approved Person during normal business hours and by the Corporation in accordance with the By-laws and Rules; and

(e) all material terms of the services to be engaged that relate to requirements of the Member or Approved Person under the By-laws, Rules, Policies or Forms shall be evidenced in writing and a copy of such terms, together with any amendments thereto from time to time or termination, shall be provided by the Member or Approved Person promptly to the Corporation upon request, together with any other information relating thereto as may be requested by the Corporation.

1.1.4 Employees

A Member may conduct its business by Approved Persons employed as employees by it provided that:

(a) any such employee is registered or licensed, in the manner necessary, and is in good standing, under the applicable legislation in the province or territory where the employee proposes to act;

(b) the Member shall be responsible for, and shall supervise, the conduct of the employee as an Approved Person in respect of the business including compliance with applicable legislation and the By-laws and Rules;

(c) the Member shall be liable to third parties (including clients) for the acts and omissions of the employee relating to the Member's business;

(d) the employee is in compliance with the legislation, By-laws and Rules applicable to the employee as an Approved Person; and

(e) where the Member and the Approved Person employed as an employee have entered into a written agreement, it shall not contain provisions which are inconsistent with an employment relationship or with the requirements set out in paragraphs (a) to (d) inclusive, of Rule 1.1.4.

1.1.5 Agents

A Member may conduct its business by Approved Persons retained or contracted by it as agents provided that:

(a) any such agent is registered or licensed in the manner necessary, and is in good standing, under the applicable legislation in the province or territory where the agent proposes to act;

(b) the Member shall be responsible for, and shall supervise, the conduct of the agent in respect of the business including compliance with applicable legislation and the By-laws and Rules;

(c) the Member shall be liable to third parties (including clients) for the acts and omissions of the agent relating to the Member's business;

(d) the agent is in compliance with the legislation, By-laws and Rules applicable to the agent;

(e) the financial institution bonds and insurance policies required to be maintained by the Member pursuant to Rule 4 cover and relate to the conduct of the agent;

(f) all books and records prepared and maintained by the agent in respect of such business of the Member shall be in accordance with Rule 5 and applicable legislation, shall be the property of the Member and shall be available for review by and delivery to the Member during normal business hours;

(g) all such business conducted by the agent is in the name of the Member subject to the provisions of Rule 1.1.7;

(h) the agent shall not conduct securities related business with or in respect of any person other than the Member;

(i) if the agent is engaged in or carrying on any business or activity other than business conducted on behalf of the Member, including any business or activity which is subject to regulation by any regulatory authority other than a securities commission, compliance with the terms of the agreement referred to in paragraph (k) shall be

monitored and enforced directly by the Member and not by or through any other person including another employer or principal of the agent;

(j) the terms or basis on which the agent may be engaged in or carry on any business or activity other than business conducted on behalf of the Member shall not prevent or impair the ability of the Member or the Corporation from monitoring and enforcing compliance by the agent with the terms of the agreement referred to in paragraph (k) or the By-laws or Rules; and

(k) the Member and the agent shall have entered into an agreement in writing, which shall be provided promptly to the Corporation upon request, containing terms which include the provisions of paragraphs (a) to (j), inclusive, and which do not include provisions which are inconsistent with paragraphs (a) to (j), and shall provide the Corporation with a certificate signed by an officer or director of such Member and, upon request by the Corporation, shall provide an opinion of counsel, confirming the agreement is in compliance with such provisions.

1.1.6 Introducing and Carrying Arrangement

(a) **Permitted Arrangements**. A Member may enter into an arrangement with another Member pursuant to which the accounts of one Member (the "introducing dealer") are carried by the other Member (the "carrying dealer") provided that:

(i) the arrangement shall satisfy the requirements of a carrying arrangement described in Rule 1.1.6(b);

(ii) an introducing dealer shall not introduce accounts to any person who is not a Member;

(iii) an introducing dealer may not introduce accounts to more than one Member, except that a Level 2, 3 or 4 Member may introduce to another Member accounts of clients which are self-directed plans registered for income tax purposes;

(iv) the Members shall enter into a written agreement evidencing the arrangement and reflecting the requirements of Rule 1.1.6(b) and such other matters as may be required by the Corporation;

(v) the arrangement (including the form of agreement referred to in Rule 1.1.6(b)) and any amendment to or termination of the arrangement or agreement, shall have been approved by the Corporation before it is to become effective; and

(vi) the arrangement shall be in compliance with the By-laws and Rules and the securities legislation applicable to either of the Members.

(b) **Terms of Arrangement**. A Member may enter into an agreement with another Member in accordance with Rule 1.1.6(a) if it satisfies the following requirements:

(i) *Minimum Capital*. The carrying dealer shall maintain at all times minimum capital of a Level 4 Dealer, and the introducing dealer shall maintain at all times minimum capital of a Level 1, 2, 3 or 4 Dealer, as the case may be;

(ii) *Reporting of Client Balances*. In calculating the risk adjusted capital required pursuant to Rule 3.1.1 and Form 1, the carrying dealer shall report all accounts of the clients (introduced by the introducing dealer to the carrying dealer and for whom assets are held in nominee name) on the carrying dealer's Form 1 and Monthly Financial Report;

(iii) *Comfort Deposit*. Any deposit (other than deposits on behalf of clients) provided to the carrying dealer by the introducing dealer pursuant to the terms of the agreement between them shall be segregated in accordance with Rule 3.3 by the carrying dealer and shall be held by the carrying dealer in a separate designated trust account for the introducing dealer;

The deposit provided by the introducing dealer to the carrying dealer shall be reported by the introducing dealer as an allowable asset on its Form 1 and Monthly Financial Report;

(iv) *Segregation of Client Cash and Securities*. The carrying dealer shall be responsible for holding and segregating in accordance with the requirements of Rule 3.3 all cash and securities held for clients introduced to it by an introducing dealer, provided that a Level 3 introducing dealer may hold cash, and a Level 4 introducing dealer may hold cash and securities, for the accounts of clients to the extent to which such functions are not part of the services to be provided by the carrying dealer;

(v) *Trust Accounts*. The carrying dealer shall be responsible for and shall maintain in its name any trust accounts established in respect of cash received for the account of clients introduced to it by the introducing dealer, provided that a Level 3 or 4 introducing dealer may hold cash in such trust accounts to the extent to which such functions are not part of the services to be provided by the carrying dealer;

(vi) *Insurance*. The introducing dealer and carrying dealer shall each maintain minimum insurance in the amounts required and in accordance with Rule 4;

(vii) *Amount of Insurance*. The carrying dealer shall include all accounts introduced to it by the introducing dealer that are held in nominee name in its calculation of the "base amount" asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E) under Rule 4;

(viii) *Disclosure and Acknowledgement on Account Opening*. At the time of opening each client account, the introducing dealer shall ensure that the client receives written disclosure explaining the introducing dealer's relationship to the carrying dealer and the relationship between the client

and the carrying dealer and, in the case of a Level 1 introducing dealer, shall obtain from the client an acknowledgement in writing to the effect that such disclosure has been received by the client;

(ix) *Contracts, Account Statements, Confirmations and Client Communications*. The name and role of each of the carrying dealer and the introducing dealer shall be shown on all contracts, account statements, confirmations and, in the case of a Level 1 introducing dealer, all client communications (as defined in Rule 2.8.1) and advertisements and sales communications (as defined in Rule 2.7.1) sent by either the introducing dealer or the carrying dealer in respect of accounts carried by the carrying dealer. In the case of a Level 1 introducing dealer, the name and role of the carrying dealer shall appear in at least equal size to that of the introducing dealer. The use of business or trade or style names shall be in accordance with Rule 1.1.7 as applicable;

(x) *Annual Disclosure*. A Level 1, 2, 3 or 4 introducing dealer may comply with the disclosure requirements under paragraph (ix) by providing written disclosure at least annually to each of its clients whose accounts are being carried by the carrying dealer, outlining the relationship between the introducing dealer and the carrying dealer and the relationship between the client and the carrying dealer;

(xi) *Clients Introduced to the Carrying Dealer*. Each client introduced to the carrying dealer by the introducing dealer shall be considered a client of the carrying dealer for the purposes of complying with the By-laws and Rules to the extent of the services provided by the carrying dealer;

(xii) *Responsibility for Reporting*. The carrying dealer shall be responsible for sending account statements and confirmations to clients introduced to it by the introducing dealer as required by the By-laws and Rules to the extent such statements and confirmations relate to trading or account positions in respect of which the carrying dealer has provided services. The carrying dealer need not send a written confirmation of a trade in a security of a mutual fund where the manager of the mutual fund sends the client a written confirmation containing the information required to be sent under Rule 5.4.3; and

(xiii) *Responsibility for Compliance*. Unless otherwise specified in Rule 2 or in this Rule 1.1.6, the introducing dealer which is a Level 1 Dealer and its carrying dealer shall be jointly and severally responsible for compliance with the By-laws and Rules for each account introduced to the carrying dealer by the introducing dealer, and in all other cases the introducing dealer shall be responsible for such compliance, subject to the carrying dealer being also responsible for compliance with respect to those functions it agrees to perform under the arrangement entered into under this Rule 1.1.6.

1.1.7 Business Names, Styles, Etc.

(a) **Use of Member Name**. Except as permitted pursuant to Rule 1.1.6 with respect to introducing dealers and carrying dealers and subject to Rule 1.1.7(b) and (c), all business carried on by a Member or by any person on its behalf shall be in the name of the Member or a business or trade or style name owned by the Member or an affiliated corporation of the Member.

(b) **Contracts, Account Statements and Confirmations**. Notwithstanding the provisions of paragraph (a), the legal name of the Member shall be included on any contracts, account statements or confirmations of the Member.

(c) **Use of Approved Person Trade Name**. Notwithstanding the provisions of paragraph (a), an Approved Person may conduct any business of the Member in a business or trade name or style name that is not that of, or owned by, the Member or its affiliated corporation if:

(i) the Member has given its prior written consent; and

(ii) in all materials communicated to clients or the public (other than contracts, account statements or confirmations in accordance with (iii)):

(A) the name is used together with the Member's legal name; and

(B) the Member's legal name or a business or trade or style name of the Member is at least equal in size and prominence to the business or trade or style name used by the Approved Person;

(iii) on contracts, account statements or confirmations, the Member's legal name must be at least equal in size and prominence to the business or trade or style name used by the Approved Person.

(d) **Notification of Trade Names**. Prior to the use of any business or style or trade names other than the Member's legal name, the Member shall notify the Corporation.

(e) **Compliance with Applicable Legislation**. Any business or trade or style name used by a Member or Approved Person must comply with the requirements of any applicable legislation relating to the registration of business or trade or style names.

(f) **Single Use of Trade Names**. No Member or Approved Person of such Member shall use any business or trade or style name that is used by any other Member, unless the relationship with such other Member is that of an introducing dealer and carrying dealer, in compliance with Rule 1.1.6.

(g) **Misleading Trade Name**. No Member or Approved Person shall use any business or trade or style name that is deceptive, misleading or likely to deceive or mislead the public.

(h) **Prohibition of Use of Trade Name**. The Corporation may prohibit a Member or Approved Person from using any business or trade or style name in a manner that is contrary to any provision of this Rule 1.1.7 or that is objectionable or contrary to the public interest.

1.2 INDIVIDUAL QUALIFICATIONS

(1) Definitions

For the purposes of this Rule and Policy No. 9,

(a) "continuing education program" ("CE program") means the MFDA's Continuing Education program.

(b) "Business Conduct Credit" means one hour of continuing education activity in a business conduct topic area, as prescribed under Policy No. 9.

(c) "cycle" means any 24-month period beginning on December 1st of an odd-numbered year.

(d) "MFDA Compliance Credit" means a continuing education activity in an MFDA Compliance topic area, as prescribed under Policy No. 9.

(e) "Professional Development Credit" means one hour of continuing education activity in a professional development topic area, as prescribed under Policy No. 9.

(2) The MFDA CE Program referred to in subsection (1)(a) above, consists of the following components: (i) business conduct; (ii) professional development; and (iii) MFDA compliance.

1.2.1 Compliance with MFDA Requirements

Each Member shall ensure that any Approved Person executes and delivers to the Member an agreement in a form as prescribed from time to time by the Corporation agreeing, among other things, to be subject to, comply with and be bound by the By-laws and Rules.

1.2.2 Registration

An Approved Person must have satisfied any applicable proficiency and other registration requirements set out in securities legislation and established by the securities regulatory authority having jurisdiction.

Amendments to Rule 1.2.3 come into effect on December 31, 2021.

1.2.3 Education, Training and Experience

An Approved Person must not perform an activity that requires registration under securities legislation unless the Approved Person has the education, training and experience that a reasonable person would consider necessary to perform the activity competently.

1.2.3 Education, Training and Experience

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

Amendments to Rule 1.2.4 come into effect on December 31, 2021.

1.2.4 Training and Supervision

(1) **General.** A Member must provide training to its Approved Persons on compliance with MFDA requirements, securities laws, and applicable laws including, without limitation, requirements under Rules 2.2.1 (Know-Your-Client), 2.2.5 (Know-Your-Product), 2.2.6 (Suitability), and 2.1.4 (Identifying, Addressing, and Disclosing Material Conflicts of Interest);

(2) **New Registrant Training and Supervision.** Upon commencement of trading or dealing in securities for the purposes of any applicable legislation on behalf of a Member, all Approved Persons who are salespersons shall complete a training program within 90 days of such commencement and a concurrent six month supervision period in accordance with such terms and conditions as may be prescribed from time to time by the Corporation, unless he or she has completed a training program and supervision period in accordance with this Rule with another Member or was licensed or registered in the manner necessary, and is in good standing, under applicable securities legislation to trade in mutual fund securities prior to the date of this Rule becoming effective.

(3) **Continuing Education.**

(a) **Compliance with CE Requirements.** Each Member and each Approved Person noted in subsections (b) and (c) below shall comply with requirements respecting continuing education, as set out under this Rule and Policy No. 9.

(b) **Dealing Representative.** For each cycle, every Approved Person who is registered as a dealing representative under Canadian securities legislation must complete 8 Business Conduct Credits, 20 Professional Development

Credits and 2 MFDA Compliance Credits, in accordance with requirements under Policy No. 9.

(c) **Chief Compliance Officer, Ultimate Designated Person and Branch Manager.** Where an Approved Person is not registered as a dealing representative, but is registered as either a chief compliance officer or ultimate designated person under Canadian securities legislation, or is designated by the Member as a branch manager, alternate branch manager, or alternate chief compliance officer under MFDA Rules, that individual must, for each cycle, complete 8 Business Conduct Credits, and 2 MFDA Compliance Credits, in accordance with requirements under Policy No. 9.

(d) **CE Requirements for a Partial Cycle.** (i) ***Non-Application:*** An Approved Person is not required to meet the CE requirement for any component credit specified under Rule 1.2.4(3)(b) or (c), where, in any given cycle, the Approved Person is subject to that component requirement for a period that is less than, or equal to, 2 months. (ii) ***Pro-ration of Credits:*** Where an Approved Person is subject to requirements for any CE component credit specified under Rule 1.2.4(3)(b) or (c) for less than a full cycle, and the period in question is greater than 2 months, the Approved Person may be able to satisfy such requirements on a pro-rata basis, in accordance with the applicable provisions of Policy No. 9.

(e) **Leaves of Absence.** Where an Approved Person is subject to the requirements under Rule 1.2.4(3) (b) or (c), and was absent, for a period of at least 4 consecutive weeks, from their employment as an Approved Person, the CCO can reduce the CE credit requirements applicable to that Approved Person under Rule 1.2.4(3)(b) or (c), in accordance with the applicable provisions under Policy No. 9.

(f) **Accreditation.** The Corporation shall only recognize continuing education activities that have met the minimum requirements set out under Policy No. 9.

(g) **Evidence of Completion.** Each Member and each Approved Person noted in subsections (b) and (c) above must maintain evidence of completion of CE credits for a cycle, as required under this Rule and Policy No. 9, for a 24-month period following the end of that cycle.

(h) **Reporting.** Each Member and each Approved Person noted in subsections (b) and (c) above must meet the minimum requirements set out under Policy No. 9 respecting notification to the Corporation of the completion of CE credits.

(i) Non-compliance.

(i) Where, for any given cycle, an Approved Person does not meet the CE credit requirements of the MFDA continuing education program, that individual shall cease to act as an Approved Person of any Member, until such time as the Corporation has determined that the prescribed CE credit requirements have been met.

(ii) Each Member shall be liable for and pay to the Corporation fees, levies, or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Member or an Approved Person to comply with the requirements of this Rule or Policy No. 9.

1.2.4 Training and Supervision

Upon commencement of trading or dealing in securities for the purposes of any applicable legislation on behalf of a Member, all Approved Persons who are salespersons shall complete a training program within 90 days of such commencement and a concurrent six month supervision period in accordance with such terms and conditions as may be prescribed from time to time by the Corporation, unless he or she has completed a training program and supervision period in accordance with this Rule with another Member or was licensed or registered in the manner necessary, and is in good standing, under applicable securities legislation to trade in mutual fund securities prior to the date of this Rule becoming effective.

Amendments to Rule 1.2.5 come into effect on December 31, 2021.

1.2.5 Misleading Communications

(1) An Approved Person must not hold themselves out, and a Member must not hold itself or its Approved Persons out, including through the use of a business or trade name, in a manner that could reasonably be expected to deceive or mislead any person or company as to any of the following matters:

(a) the proficiency, experience, qualifications, or category of registration of the Approved Person, or Member;

(b) the nature of the client's or any other person's relationship, or potential relationship, with the Member or the Approved Person; or

(c) the products or services provided, or to be provided, by the Member or the Approved Person.

(2) For greater certainty, and without limiting Rule 1.2.5(1), an Approved Person who interacts with clients must not use any of the following:

(a) if based partly or entirely on that Approved Person's sales activity or revenue generation, a title, designation, award, or recognition;

(b) a corporate officer title, unless the Member has appointed that Approved Person to that corporate office pursuant to applicable corporate law; or

(c) if the Approved Person's Member has not approved the use by that Approved Person of a title or designation, that title or designation.

1.2.5 Misleading Business Titles Prohibited

No Approved Person shall hold him or herself out to the public in any manner including, without limitation, by the use of any business name or designation of qualifications or professional experience that deceives or misleads, or could reasonably be expected to deceive or mislead, a client or any other person as to the proficiency or qualifications of the Approved Person under the Rules or any applicable legislation.

1.2.6 Continuing Education (CE)

(a) **Compliance with CE Requirements.** Each Member and each Approved Person shall comply with continuing education requirements applicable to them, as set out under this Rule and Policy No. 9.

(b) **Dealing Representative.** For each cycle, every Approved Person who is registered as a dealing representative under Canadian securities legislation must complete 8 Business Conduct Credits, 20 Professional Development Credits and 2 MFDA Compliance Credits, in accordance with requirements under Policy No. 9.

(c) **Chief Compliance Officer, Ultimate Designated Person and Branch Manager.** Where an Approved Person is not registered as a dealing representative, but is registered as either a chief compliance officer or ultimate designated person under Canadian securities legislation, or is designated by the Member as a branch manager, alternate branch manager, or alternate chief compliance officer under MFDA Rules, that individual must, for each cycle, complete 8 Business Conduct Credits, and 2 MFDA Compliance Credits, in accordance with requirements under Policy No. 9.

(d) **CE Requirements for a Partial Cycle.**

(i) **Non-Application.** An Approved Person is not required to meet the CE requirement for any component credit specified under Rule 1.2.6(b) or (c), where, in any given cycle, the Approved Person is subject to that component requirement for a period that is less than, or equal to, 2 months.

(ii) **Pro-ration of Credits.** Where an Approved Person is subject to requirements for any CE component credit specified under Rule 1.2.6(b) or (c) for less than a full cycle, and the period in question is greater than 2

months, the Approved Person may be able to satisfy such requirements on a pro-rata basis, in accordance with the applicable provisions of Policy No. 9.

(e) **Leaves of Absence.** Where an Approved Person is subject to the requirements under Rule 1.2.6(b) or (c), and was absent, for a period of at least 4 consecutive weeks, from their employment as an Approved Person, the CCO can reduce the CE credit requirements applicable to that Approved Person under Rule 1.2.6(b) or (c), in accordance with the applicable provisions under Policy No. 9.

(f) **Accreditation.** The Corporation shall only recognize continuing education activities that have met the minimum requirements set out under Policy No. 9.

(g) **Evidence of Completion.** Each Member and each Approved Person noted in subsections (b) and (c) above must maintain evidence of completion of CE credits for a cycle, as required under this Rule and Policy No. 9, for a 24-month period following the end of that cycle.

(h) **Reporting.** Each Member and each Approved Person noted in subsections (b) and (c) above must meet the minimum requirements set out under Policy No. 9 respecting notification to the Corporation of the completion of CE credits.

(i) **Non-compliance.**

(i) Where, for any given cycle, an Approved Person does not meet the CE credit requirements of the MFDA continuing education program, that individual shall cease to act as an Approved Person of any Member, until such time as the Corporation has determined that the prescribed CE credit requirements have been met.

(ii) Each Member shall be liable for and pay to the Corporation fees, levies, or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Member or an Approved Person to comply with the requirements of this Rule or Policy No. 9.

1.3 OUTSIDE ACTIVITY

1.3.1 Definition

For the purpose of the By-laws, Rules and Policies, "outside activity" means any activity conducted by an Approved Person outside of the Member:

(a) for which direct or indirect payment, compensation, consideration or other benefit is received or expected;

(b) involving any officer or director position and any other equivalent positions; or

(c) involving any position of influence.

1.3.2 Requirements for Outside Activity

An Approved Person may have, and continue in, an outside activity provided that:

(a) *Not prohibited*. The Corporation and the securities regulatory authority in the jurisdiction in which the Approved Person carries on, or proposes to carry on, the outside activity do not prohibit the Approved Person from engaging in such outside activity;

(b) *Notification*. The Approved Person discloses the outside activity to the Member;

(c) *Approval*. The Approved Person obtains written Member approval of the outside activity prior to engaging in such outside activity;

(d) *Conduct unbecoming*. The outside activity of the Approved Person must not be such as to bring the Corporation, its Members or the mutual fund industry into disrepute; and

(e) *Disclosure*. To the extent that the outside activity could be confused with Member business, clear written disclosure is provided to clients that any activities related to the outside activity are not the business of the Member and are not the responsibility of the Member.

1.4 REPORTING REQUIREMENTS

(a) **Member Reporting**. Every Member must report to the Corporation such information, in a manner and within such period of time, as may be prescribed by the Corporation from time to time relating to:

(i) complaints, criminal, civil and other legal proceedings, regulatory proceedings, arbitrations, contraventions and potential contraventions of legal and regulatory requirements, disciplinary action by regulatory bodies or by Members against Approved Persons, settlements with and compensation paid to clients, registration or licensing by any regulatory body, bankruptcies, insolvencies, garnishments and related events;

(ii) investigations by the Member relating to any of the matters in sub-section (i); and

(iii) information relating to the business and operation of the Member and its Approved Persons.

(b) **Approved Person Reporting**. Every Approved Person must report to the Member such information, in a manner and within such period of time, as may be prescribed by the Corporation from time to time relating to complaints, criminal, civil and other legal proceedings, regulatory proceedings, arbitrations, contraventions and potential contraventions of legal and regulatory requirements, disciplinary action by regulatory bodies, settlements with and compensation paid to clients,

registration or licensing by any regulatory body, bankruptcies, insolvencies, garnishments and related events.

(c) **Failure to Report**. A Member shall be liable for and pay to the Corporation levies or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Member or Approved Person to report any information required to be reported in the manner and within the period of time prescribed by the Corporation.

2. RULE NO. 2 – BUSINESS CONDUCT

2.1 GENERAL

2.1.1 Standard of Conduct.

Each Member and each Approved Person of a Member shall:

(a) deal fairly, honestly and in good faith with its clients;

(b) observe high standards of ethics and conduct in the transaction of business;

(c) not engage in any business conduct or practice which is unbecoming or detrimental to the public interest; and

(d) be of such character and business repute and have such experience and training as is consistent with the standards described in this Rule 2.1.1, or as may be prescribed by the Corporation.

2.1.2 Member Responsible.

Each Member shall be responsible for the acts and omissions of each of its Approved Persons and other employees and agents relating to its business for all purposes under the By-laws and Rules.

2.1.3 Confidential Information

(a) All information received by a Member relating to a client or the business and affairs of a client shall be maintained in confidence by the Member and its Approved Persons and other employees and agents. No such information shall be disclosed to any other person or used for the advantage of the Member or its Approved Persons or other employees or agents without the prior written consent of the client or as required or authorized by legal process or statutory authority or where such information is reasonably necessary to provide a product or service that the client has requested.

(b) Each Member shall develop and maintain written policies and procedures relating to confidentiality and the protection of information held by it in respect of clients.

2.1.4 (1) Identifying, addressing and disclosing material conflicts of interest – Member

(a) A Member must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable,

(i) between the Member and the client, and

(ii) between each individual acting on the Member's behalf and the client.

(b) A Member must address all material conflicts of interests between a client and itself, including each individual acting on its behalf, in the best interests of the client.

(c) A Member must avoid any material conflict of interest between a client and the Member, including each individual acting on its behalf, if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.

(d) A Member must disclose in writing all material conflicts of interest identified under Rule 2.1.4(1)(a) to a client whose interests are affected by the conflicts of interest if a reasonable client would expect to be informed of those conflicts of interest.

(e) Without limiting subsection (d), the information required to be delivered to a client under that subsection must include a description of each of the following:

(i) the nature and extent of the conflict of interest;

(ii) the potential impact on and risk that the conflict of interest could pose to the client;

(iii) how the conflict of interest has been, or will be, addressed.

(f) The disclosure required under subsection (d) must be presented in a manner that, to a reasonable person, is prominent, specific and written in plain language.

(g) A Member must disclose a conflict of interest to a client under subsection (d)

(i) before opening an account for the client if the conflict has been identified at that time, or

(ii) in a timely manner, upon identification of a conflict that must be disclosed under subsection (d) that has not previously been disclosed to the client.

(h) For greater certainty, a Member or Approved Person does not satisfy Rule 2.1.4(1)(b) or requirements under Rule 2.1.4(2)(c) solely by providing disclosure to the client.

2.1.4 (2) Identifying, reporting and addressing material conflicts of interest – Approved Person

(a) An Approved Person must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable, between the Approved Person and the client.

(b) If an Approved Person identifies a material conflict of interest under Rule 2.1.4(2)(a), the Approved Person must promptly report that conflict of interest to their Member.

(c) An Approved Person must address all material conflicts of interest between the client and the Approved Person in the best interest of the client.

(d) An Approved Person must avoid any material conflict of interest between a client and the Approved Person if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.

(e) An Approved Person must not engage in any trading or advising activity in connection with a material conflict of interest identified by the Approved Person under Rule 2.1.4(2)(a) unless

(i) the conflict has been addressed in the best interest of the client, and

(ii) the Approved Person's Member has given the Approved Person its consent to proceed with the activity.

New Rule 2.1.5 comes into effect on December 31, 2021.

2.1.5 Borrowing From Clients

No Approved Person shall borrow money, securities or other assets or accept a guarantee in relation to borrowed money, securities or any other assets, from a client unless:

(i) the client and the Approved Person are related to each other for the purposes of the *Income Tax Act* (Canada); and

(ii) the Approved Person has obtained the written approval of their Member to borrow the money, securities or other assets or accept the guarantee.

2.2 CLIENT ACCOUNTS

Amendments to Rule 2.2 come into effect on December 31, 2021.

Definitions. For the purposes of the By-laws and Rules:

"financial exploitation" means the use or control of, or deprivation of the use or control of, a financial asset of an individual by a person through undue influence, unlawful conduct or another wrongful act;

"temporary hold" means a hold that is placed on the purchase or sale of a security on behalf of a client or on the withdrawal or transfer of cash or securities from a client's account;

"trusted contact person" means an individual identified by a client to a Member or Approved Person whom the Member or Approved Person may contact in accordance with the client's written authorization; and

"vulnerable client" means a client who might have an illness, impairment, disability or aging-process limitation that places the client at risk of financial exploitation.

Amendments to Rule 2.2.1 come into effect on December 31, 2021.

2.2.1 "Know-Your-Client"

2.2.1(1) Each Member and Approved Person shall take reasonable steps to learn the essential facts relative to each client and to each order or account accepted, and to;

(a) establish the identity of a client and, if the Member or Approved Person has cause for concern, make reasonable inquiries as to the reputation of the client;

(b) ensure that they have sufficient information, in accordance with requirements under Policy No. 2, and regarding all of the following, to enable the Member or Approved Person to meet their obligations under Rule 2.2.6

(i) the client's personal circumstances;

(ii) the client's financial circumstances;

(iii) the client's investment needs and objectives;

(iv) the client's investment knowledge;

(v) the client's risk profile; and

(vi) the client's investment time horizon.

(c) take reasonable steps to obtain from the client the name and contact information of a trusted contact person, and the client's written authorization for the Member or Approved Person to contact the trusted contact person to confirm or make inquiries about any of the following:

(i) the Member's or Approved Person's concerns about possible financial exploitation of the client;

(ii) the Member's or Approved Person's concerns about the client's mental capacity as it relates to the ability of the client to make decisions involving financial matters;

(iii) the name and contact information of a legal representative of the client, if any;

(iv) the client's contact information.

(d) Subsection (c) does not apply to a Member or Approved Person in respect of a client that is not an individual.

2.2.1(2) For the purpose of establishing the identity of a client that is a corporation, partnership, or trust, the Member or Approved Person must establish the following:

(a) the nature of the client's business;

(b) the identity of any individual who,

(i) in the case of a corporation, is a beneficial owner of, or exercises direct or indirect control or direction over more than 25% of the voting rights attached to the outstanding voting securities of the corporation, or

(ii) in the case of a partnership or trust, exercises control over the affairs of the partnership or trust.

2.2.1 "Know-Your-Client"

Each Member and Approved Person shall use due diligence:

(a) to learn the essential facts relative to each client and to each order or account accepted;

(b) to ensure that the acceptance of any order for any account is within the bounds of good business practice;

(c) to ensure that each order accepted or recommendation made, including recommendations to borrow to invest, for any account of a client is suitable for the client based on the essential facts relative to the client and any investments within the account;

(d) to ensure that, notwithstanding the provisions of paragraph (c), where a transaction, including a transaction involving the use of borrowed funds, proposed by a client is not suitable for the client based on the essential facts relative to the client and the investments in the account, the Member or Approved Person has so advised the client before execution thereof and the Member or Approved Person has maintained evidence of such advice;

(e) to ensure that the suitability of the investments within each client's account is assessed:

(i) whenever the client transfers assets into an account at the Member;

(ii) whenever the Member or Approved Person becomes aware of a material change in client information, as defined in Rule 2.2.4; or

(iii) by the Approved Person where there has been a change in the Approved Person responsible for the client's account at the Member;

and, where investments in a client's account are determined to be unsuitable, the Member or Approved Person so advises the client and makes recommendations to address any inconsistencies between investments in the account and the essential facts relative to the client and the Member or Approved Person maintains evidence of such advice and recommendations;

(f) to ensure that the suitability of the use of borrowing to invest is assessed:

(i) whenever the client transfers assets purchased using borrowed funds into an account at the Member;

(ii) whenever the Member or Approved Person becomes aware of a material change in client information, as defined in Rule 2.2.4; or

(iii) by the Approved Person where there has been a change in the Approved Person responsible for the client's account at the Member;

and, where the use of borrowing to invest by the client is determined to be unsuitable, the Member or Approved Person so advises the client and makes recommendations to address the inconsistency between the use of borrowed funds and the essential facts relative to the client and the Member or Approved Person maintains evidence of such advice and recommendations.

2.2.2 New Accounts

(a) Each new account for a client must be opened by the Member within a reasonable time of the client's instruction to do so. Account numbers must not be assigned unless they are accompanied by the proper name and address for the client.

(b) A New Account Application Form must be completed for each new account of a client. If the New Account Application Form does not include know-your-client information, this must be documented on a separate Know-Your-Client form. Such form or forms shall be duly completed to conform with the requirements of Rule 2.2.1 and shall be signed by the client and dated.

2.2.3 New Account Approval

Each Member shall designate a trading partner, director or officer or, in the case of a branch office, a branch manager reporting directly to the designated partner, director or officer, who shall be responsible for approval of the opening of new accounts and the supervision of account activity. The designated person shall, no later than one business day after the initial transaction date, approve the opening of such account and a record of such approval shall be maintained in accordance with Rule 5.

Amendments to Rule 2.2.4 come into effect on December 31, 2021.

2.2.4 Updating Client Information

(a) **Definition**. In this Rule, "**material change in client information**" means any information that results in changes to the stated risk profile, investment time horizon or investment needs and objectives of the client or would have a significant impact on the net worth or income of the client.

(b) A Member or Approved Person must take reasonable steps to keep the information required under Rule 2.2.1 current including updating the information within a reasonable time after becoming aware of a material change in client information.

(c) Subject to paragraph (d), the Member must maintain evidence of client instructions regarding any material changes in client information in accordance with Policy No. 2, Part II (Opening New Accounts) – Changes to KYC Information, paragraph 6. All such changes must be approved by the individual designated in accordance with Rule 2.2.3 as responsible for the approval of the opening of new accounts.

(d) A client signature or other internal controls sufficient to authenticate the client's identity and verify the client's authorization must be used to evidence any change in client name, client address or client banking information.

(e) Without reducing the responsibility of Members in Rule 2.2.1, all Members must at least annually, in writing, request each client to notify the Member if there has been any material change in client information previously provided to the Member or the client's circumstances have materially changed. The date of such request and the date upon which any such client information is received and recorded or amended must be retained.

(f) A Member or Approved Person must review the information collected under Rule 2.2.1(1)(b):

(i) within 12 months when transacting in securities that require registration, under securities legislation, as an exempt market dealer;

(ii) in any other case, no less frequently than once every 36 months.

2.2.4 Updating Client Information

(a) **Definition**. In this Rule, "**material change in client information**" means any information that results in changes to the stated risk tolerance, time horizon or investment objectives of the client or would have a significant impact on the net worth or income of the client.

(b) The form documenting know-your-client information must be updated to include any material change in client information whenever a Member or Approved Person becomes aware of such change including pursuant to Rule 2.2.4(e).

(c) Subject to paragraph (d), the Member must maintain evidence of client instructions regarding any material changes in client information and all such changes must be approved by the individual designated in accordance with Rule 2.2.3 as responsible for the approval of the opening of new accounts.

(d) A client signature or other internal controls sufficient to authenticate the client's identity and verify the client's authorization must be used to evidence any change in client name, client address or client banking information.

(e) Without reducing the responsibility of Members in Rule 2.2.1, all Members must at least annually, in writing, request each client to notify the Member if there has been any material change in client information previously provided to the Member or the client's circumstances have materially changed. The date of such request and the date upon which any such client information is received and recorded or amended must be retained.

Amendments to Rule 2.2.5 come into effect on December 31, 2021.

2.2.5 Know Your Product

(1) A Member must not make investments available to clients unless the Member has taken reasonable steps to:

(a) assess the relevant aspects of the investments, including the investments' structure, features, risks, initial and ongoing costs and the impact of those costs;

(b) approve the investments to be made available to clients; and

(c) monitor the investments for significant changes.

(2) An Approved Person must not purchase or sell investments for, or recommend investments to, a client unless the Approved Person takes steps to understand the investment, including the investments' structure, features, risks, initial and ongoing costs and the impact of those costs.

(2.1) For the purposes of subsection (2), the steps required to understand the investment are those that are reasonable to enable the Approved Person to meet their obligations under Rule 2.2.6.

(3) An Approved Person must not purchase investments for, or recommend investments to, a client unless the investments have been approved by the Member to be made available to clients.

2.2.5 Relationship Disclosure

For each new account opened, the Member shall provide written disclosure to the client:

(a) describing the nature of the advisory relationship;

(b) describing the products and services offered by the Member;

(c) describing the Member's procedures regarding the receipt and handling of client cash and cheques. In the case of a Level 2 dealer, the disclosure must include an explanation that all client cheques shall be payable to the issuer or carrying dealer, as applicable;

(d) describing the Member's obligation to ensure that each order accepted or recommendation made for any account of a client is suitable for the client in accordance with Rule 2.2.1 and advising when the Member will assess the suitability of the investments in the client's account;

(e) defining the various terms with respect to the know-your-client information collected by the Member and describing how this information will be used in assessing investments in the account;

(f) describing the content and frequency of reporting for the account;

(g) describing the nature of the compensation that may be paid to the Member and referring the client to other sources for more specific information;

(h) describing the type of transaction charges, as defined under Rule 5.3(1), that the client might be required to pay; and

(i) including a general explanation of how investment performance benchmarks might be used to assess the performance of a client's investments and any options for benchmark information that might be available to clients by the Member.

New Rule 2.2.6 comes into effect on December 31, 2021.

2.2.6 Suitability Determination

(1) Before a Member or Approved Person opens an account for a client, makes a recommendation for an account of a client, including a recommendation to borrow to invest, purchases, sells, deposits, exchanges, or transfers investments for a client's account, or takes any other investment action for a client, the Member or Approved Person must determine, on a reasonable basis, that the action satisfies the following criteria:

(a) the action is suitable for the client, based on the following factors:

(i) the client's information collected in accordance with Rule 2.2.1 (Know-Your-Client);

(ii) the Member or Approved Person's assessment or understanding of the investment consistent with Rule 2.2.5 (Know-Your-Product);

(iii) the impact of the action on the client's account, including the concentration of investments within the account and the liquidity of those investments;

(iv) the potential and actual impact of costs on the client's return on investment;

(v) a reasonable range of alternative actions available to the Approved Person through the Member, at the time the determination is made;

(b) the action puts the client's interest first.

(2) A Member or Approved Person must review a client's account and the investments in the client's account to determine whether the criteria in subsection (1) are met, and take reasonable steps, within a reasonable time, after any of the following events:

(a) a review must be performed by the Approved Person, when there has been a change in the Approved Person responsible for the client's account at the Member;

(b) the Member or Approved Person becomes aware of a change in an investment in the client's account that could result in the investment or account not satisfying subsection (1);

(c) the Member or Approved Person becomes aware of a material change in the client's information collected in accordance with Rule 2.2.1 that could result in an investment or the client's account not satisfying subsection (1);

(d) the Member or Approved Person performs the periodic review required under Rule 2.2.4(f);

(e) whenever the client transfers assets into an account at the Member.

2.1. If, after performing a suitability determination, a Member or Approved Person has determined that an action taken for a client does not meet requirements under Rule 2.2.6(1), the Member or Approved Person must advise the client accordingly, make recommendations to address any inconsistencies, and maintain evidence of such advice and recommendations.

2.2. Despite subsection (1), if a Member or Approved Person receives an instruction from a client to take an action that, if taken, does not satisfy subsection (1), the Member or

Approved Person may carry out the client's instruction if the Member or Approved Person has

(a) informed the client of the basis for the determination that the action will not satisfy subsection (1);

(b) recommended to the client an alternative action that satisfies subsection (1); and

(c) received recorded confirmation of the client's instruction to proceed with the action despite the determination referred to in paragraph (a).

New Rule 2.2.7 comes into effect on December 31, 2021.

2.2.7 Relationship Disclosure

Definitions. For the purpose of requirements under Rule 2.2.7, "proprietary product" means a security of an issuer if one or more of the following apply:

(a) the issuer of the security is a connected issuer of the Member;

(b) the issuer of the security is a related issuer of the Member;

(c) the Member or an affiliate of the Member is the investment fund manager or portfolio manager of the issuer of the security.

2.2.7(1) For each new account opened, the Member shall provide written disclosure to the client:

(a) describing the nature of the advisory relationship;

(b) that provides a general description of the products and services the Member will offer to the client, including:

(i) a description of the restrictions on the client's ability to liquidate or resell a security; and

(ii) a statement of the investment fund management expense fees or other ongoing fees the client may incur in connection with a security or service the Member provides;

(c) that provides a general description of any limits on the products and services the Member will offer to the client, including whether the Member will primarily or exclusively offer proprietary products to the client, and whether there will be other limits on the availability of products or services;

(d) describing the Member's procedures regarding the receipt and handling of client cash and cheques. In the case of a Level 2 dealer, the disclosure must include an explanation that all client cheques shall be payable to the issuer or carrying dealer, as applicable;

(e) stating that the Member must determine that any investment action it takes, recommends or decides on, for the client is suitable for the client and puts the client's interests first;

(f) defining the various terms with respect to the know-your-client information collected by the Member and describing how this information will be used in assessing investments in the account;

(g) a description of the circumstances under which a Member or Approved Person might disclose information about the client or the client's account to a trusted contact person referred to in Rule 2.2.1(1)(c);

(h) describing the content and frequency of reporting for the account;

(i) that provides a general description of any benefits received, or expected to be received, by the Member or Approved Person from a person or company other than the client in connection with the client's purchase or ownership of an investment through the Member or Approved Person;

(j) disclosure of the operating charges the client might be required to pay related to the client's account;

(k) describing the type of transaction charges, as defined under Rule 5.3(1), that the client might be required to pay;

(l) generally describing the potential impact on a client's investment returns from investment fund management expense fees, other ongoing fees, operating charges, or transaction charges, including their compounding effect over time;

(m) including a general explanation of how investment performance benchmarks might be used to assess the performance of a client's investments and any options for benchmark information that might be available to clients by the Member, and

(n) a general explanation of the circumstances under which a Member or Approved Person may place a temporary hold under Rule 2.2.8 (Conditions for Temporary Hold) and a description of the notice that will be given to the client if a temporary hold is placed or continued under that Rule.

2.2.7(2) If there is a significant change in respect of the information delivered to the client under this Rule, the Member must take reasonable steps to notify the client of the change in a timely manner, and, if possible, before the Member next

(a) purchases or sells an investment for the client; or

(b) advises the client to purchase, sell, or hold an investment.

New Rule 2.2.8 comes into effect on December 31, 2021.

2.2.8 Conditions for Temporary Hold

(1) A Member or Approved Person must not place a temporary hold on the basis of financial exploitation of a vulnerable client unless the Member reasonably believes all of the following:

(a) the client is a vulnerable client;

(b) financial exploitation of the client has occurred, is occurring, has been attempted or will be attempted.

(2) A Member or Approved Person must not place a temporary hold on the basis of a client's lack of mental capacity unless the Member reasonably believes that the client does not have the mental capacity to make decisions involving financial matters.

(3) If a Member or Approved Person places a temporary hold referred to in subsection (1) or (2), the Member must do all of the following :

(a) document the facts and reasons that caused the Member or Approved Person to place and, if applicable, to continue the temporary hold;

(b) provide notice of the temporary hold and the reasons for the temporary hold to the client as soon as possible after placing the temporary hold;

(c) review the relevant facts as soon as possible after placing the temporary hold, and on a reasonably frequent basis, to determine if continuing the hold is appropriate;

(d) within 30 days of placing the temporary hold and, until the hold is revoked, within every subsequent 30-day period, do either of the following:

(i) revoke the temporary hold;

(ii) provide the client with notice of the Member's decision to continue the hold and the reasons for that decision.

2.3 CONTROL OR AUTHORITY

2.3.1 (a) Control or Authority

No Member or Approved Person shall have full or partial control or authority over the financial affairs of a client, including:

(i) accepting or acting upon a power of attorney from a client;

(ii) accepting an appointment to act as a trustee or executor of a client; or

(iii) acting as a trustee or executor in respect of the estate of a client.

(b) Discretionary Trading

No Member or Approved Person shall engage in any discretionary trading.

(c) Exception

Notwithstanding the provisions of paragraph (a), an Approved Person may have full or partial control or authority over the financial affairs of a client provided that:

(i) the client is a Related Person, as defined by the Income Tax Act (Canada), of the Approved Person;

(ii) the Approved Person notifies the Member of the appointment; and

(iii) the Approved Person obtains written Member approval prior to accepting or acting upon the control or authority.

2.3.2 Limited Trading Authorization

A Member or Approved Person may accept a limited trading authorization from a client for the express purpose of facilitating trade execution. In such circumstances a form of limited trading authorization as prescribed by the Corporation must be completed and approved by the compliance officer or branch manager, and retained in the client's file.

2.3.3 Designation

Each trade made pursuant to a limited trading authorization and its corresponding account must be identified as such in the books and records of the Member and on any order documentation.

2.4. REMUNERATION, COMMISSIONS AND FEES

2.4.1 (a) Payable by Member Only

Any remuneration in respect of business conducted by an Approved Person on behalf of a Member must be paid by the Member (or its affiliates or its related Members which have received it from the Member) directly to and in the name of the Approved Person.

No Approved Person in respect of a Member shall accept or permit any associate to accept directly or indirectly, any remuneration, gratuity, benefit or any other consideration from any person other than the Member or its affiliates or its related Members, in respect of the business carried out by such Approved Person on behalf of the Member or its affiliates or its related Members.

(b) Payment of Commissions to Unregistered Corporation

For the purpose of this Rule, "unregistered corporation" shall be understood to mean a corporation that is, itself, not registered under securities legislation. Notwithstanding paragraph (a), where an Approved Person acts as an agent of the Member in compliance with MFDA Rule 1.1.5, any remuneration, gratuity, benefit or other consideration in respect of business conducted by the Approved Person on behalf of a Member may be paid by the Member to an unregistered corporation provided that:

(i) such arrangements are not prohibited or otherwise limited by the relevant securities legislation or securities regulatory authorities;

(ii) the corporation is incorporated under the laws of Canada or a province or territory of Canada;

(iii) the Member, Approved Person and the unregistered corporation have entered into an Agreement in writing, in a form prescribed by the Corporation, in favour of the Corporation, the terms of which provide that:

(A) the Member and Approved Person shall comply with applicable MFDA By-laws and Rules and securities legislation and remain liable to third parties, including clients, irrespective of whether any remuneration, gratuity, benefit or any other consideration is paid to an unregistered corporation and no such payment shall, in and of itself, in any way limit or affect the duties, obligations or liability of the Member or Approved Person under MFDA Rules and applicable securities legislation;

(B) the Member shall engage in appropriate supervision with respect to the conduct of the Approved Person and the unregistered corporation to ensure such compliance as referred to in (A), above; and

(C) the Approved Person and the unregistered corporation shall provide the Member, the applicable securities commission and the MFDA with access to all books and records maintained by or on behalf of either of them for the purpose of determining compliance with MFDA Rules and applicable securities legislation.

(c) Arrangements Prohibited

Paragraph (b) does not apply in respect of any such remuneration, gratuity, benefit or other consideration derived from a client in Alberta.

Amendments to Rule 2.4.2 come into effect on December 31, 2021.

2.4.2 Referral Arrangements

(a) **Definitions**. For the purpose of this Rule 2.4.2:

(i) "client" includes a prospective client;

(ii) "referral arrangement" means any arrangement in which a Member or Approved Person agrees to provide or receive a referral fee to or from another person or company; and

(iii) "referral fee" means any benefit provided for the referral of a client to or from a Member or Approved Person.

(b) **Permitted Referral Arrangements.** A Member or Approved Person must not participate in a referral arrangement with another person or company unless:

(i) before a client is referred by or to the Member or Approved Person, the terms of the referral arrangement are set out in a written agreement between the Member and the person or company;

(ii) the Member records all referral fees; and

(iii) the Member ensures that the information prescribed under Rule 2.4.2(d)(i) is provided to the client in writing before the party receiving the referral either opens an account for the client or provides services to the client.

2.4.2 Referral Arrangements

(a) **Definitions**. For the purpose of this Rule 2.4.2:

(i) "client" includes a prospective client;

(ii) "referral arrangement" means any arrangement in which a Member or Approved Person agrees to pay or receive a referral fee; and

(iii) "referral fee" means any form of compensation, direct or indirect, paid for the referral of a client to or from a Member or Approved Person.

(b) **Permitted Referral Arrangements**. A Member or Approved Person must not participate in a referral arrangement with another person or company unless:

(i) before a client is referred by or to the Member or Approved Person, the terms of the referral arrangement are set out in a written agreement between the Member and the person or company;

(ii) the Member records all referral fees; and

(iii) the Member or Approved Person ensures that the information prescribed under Rule 2.4.2(d)(i) is provided to the client in writing before the party receiving the referral either opens an account for the client or provides services to the client.

(c) **Verifying the Qualifications of the Person or Company Receiving the Referral**. A Member or Approved Person must not refer a client to another person or company unless the Member first takes reasonable steps to satisfy itself that the person or company has the appropriate qualifications to provide the services, and if applicable, is registered to provide those services.

(d) **Disclosing Referral Arrangements to Clients**

(i) The written disclosure of the referral arrangement required under Rule 2.4.2(b)(iii) must include the following:

(A) the name of each party to the agreement referred to under Rule 2.4.2(b)(i);

(B) the purpose and material terms of the agreement, including the nature of the services to be provided by each party;

(C) any conflicts of interest resulting from the relationship between the parties to the agreement and from any other element of the referral arrangement;

(D) the method of calculating the referral fee and, to the extent possible, the amount of the fee;

(E) the category of registration of each registrant that is a party to the agreement with a description of the activities that the registrant is authorized to engage in under that category and, giving consideration to the nature of the referral, the activities that the registrant is not permitted to engage in;

(F) if a referral is made to a registrant, a statement that all activity requiring registration resulting from the referral arrangement will be provided by the registrant receiving the referral; and

(G) any other information that a reasonable client would consider important in evaluating the referral arrangement.

(ii) If there is a change to the information set out under Rule 2.4.2(d)(i), the Member or Approved Person must ensure that written disclosure of that change is provided to each client affected by the change as soon as possible and no later than the 30th day before the date on which a referral fee is next paid or received.

2.4.3 Operating Charges

(a) No Member shall impose on any client or deduct from the account of any client any operating charge, as defined under Rule 5.3(1), unless written notice shall have been given to the client:

(i) on the opening of the account; and

(ii) not less than 60 days prior to the imposition or revision of the charge.

Amendments to Rule 2.4.4. come into effect on December 31, 2021.

2.4.4 Transaction Fees or Charges

Prior to the acceptance of any order in respect of a transaction in a client account, the Member shall disclose to the client any transaction charges and:

(a) charges in respect of the purchase or sale of a security or a reasonable estimate if the actual amount of the charges is not known to the Member at the time of disclosure;

(b) in the case of a purchase of a security to which deferred charges apply, that the client might be required to pay a deferred sales charge on the subsequent sale of the security and the fee schedule that will apply;

(c) whether the Member will receive trailing commissions in respect of the security;

(d) whether there are any investment fund management expense fees or other ongoing fees that the client may incur in connection with the security; and

(e) provide a description of the restrictions on the client's ability to liquidate or resell a security.

2.4.4 Transaction Fees or Charges

Prior to the acceptance of any order in respect of a transaction in a client account, the Member shall disclose to the client any transaction charges and:

(a) charges in respect of the purchase or sale of a security or a reasonable estimate if the actual amount of the charges is not known to the Member at the time of disclosure;

(b) in the case of a purchase of a security to which deferred charges apply, that the client might be required to pay a deferred sales charge on the subsequent sale of the security and the fee schedule that will apply; and

(c) whether the Member will receive trailing commissions in respect of the security.

2.5 MINIMUM STANDARDS OF SUPERVISION

2.5.1 Member Responsibilities

Each Member is responsible for establishing, implementing and maintaining policies and procedures to ensure the handling of its business is in accordance with the By-laws, Rules and Policies and with applicable securities legislation.

2.5.2 Ultimate Designated Person

(a) **Designation**. Each Member must designate an individual registered under applicable securities legislation as an "ultimate designated person" who must be:

(i) the chief executive officer or sole proprietor of the Member;

(ii) an officer in charge of a division of the Member, if dealing in mutual funds occurs only within that division; or

(iii) an individual acting in a capacity similar to that of an officer described in (i) or (ii).

(b) **Responsibilities**. The ultimate designated person must:

(i) supervise the activities of the Member that are directed towards ensuring compliance with the By-laws, Rules and Policies and with applicable securities legislation by the Member and its Approved Persons; and

(ii) promote compliance with the By-laws, Rules and Policies and with applicable securities legislation by the Member and its Approved Persons.

2.5.3 Chief Compliance Officer

(a) **Designation**. Each Member must designate an individual registered under applicable securities legislation as a chief compliance officer" who must be:

(i) an officer or partner of the Member; or

(ii) the sole proprietor of the Member.

(b) **Responsibilities**. The chief compliance officer must:

(i) establish and maintain policies and procedures for assessing compliance by the Member and its Approved Persons with the By-laws, Rules and Policies and with applicable securities legislation;

(ii) monitor and assess compliance by the Member and its Approved Persons with the By-laws, Rules and Policies and with applicable securities legislation;

(iii) report to the ultimate designated person of the Member as soon as possible if the chief compliance officer becomes aware of any circumstances indicating that the Member, or any of its Approved Persons may be in non-compliance with the By-laws, Rules and Policies and with applicable securities legislation and any of the following apply:

(A) the non-compliance reasonably creates a risk of harm to a client;

(B) the non-compliance reasonably creates a risk of harm to the capital markets;

(C) the non-compliance is part of a pattern of non-compliance; and

(iv) submit a report to the board of directors or partners, as frequently as necessary and not less than annually, for the purpose of assessing compliance by the Member and its Approved Persons with the By-laws, Rules and Policies and with applicable securities legislation.

(c) **Alternates**. In the event that a chief compliance officer is temporarily absent or unable to perform his or her responsibilities, a Member shall designate one or more alternates who must be qualified as chief compliance officers pursuant to the applicable securities legislation and who shall carry out the responsibilities of the chief compliance officer.

2.5.4 Access to Board

The Member must permit its ultimate designated person and its chief compliance officer to directly access the board of directors or partners of the Member at such times as the ultimate designated person or the chief compliance officer may consider necessary or advisable in view of his or her responsibilities.

2.5.5 Branch Manager

(a) **Designation**. Each Member must designate an individual qualified as a branch manager pursuant to paragraph (d) for each branch office (as defined in By-law 1.1) of the Member. The Member is not required to designate a branch manager for a sub-branch office who is normally present at the office, provided that a branch manager who is not normally present at such sub-branch office supervises its business at the sub-branch office in accordance with the By-laws, Rules and Policies.

(b) Each individual designated as branch manager or alternate branch manager must submit to the jurisdiction of the MFDA.

(c) Notwithstanding paragraph (a), and subject to the approval of the Corporation, a Member may designate branch managers for branch offices who are not normally present at the offices provided the Member has a system to ensure effective supervision of activities at the branches.

(d) **Proficiency Requirements**. An individual may not be designated by the Member as a branch manager pursuant to paragraph (a) or an alternate branch manager pursuant to paragraph (g) unless the individual has:

(i) met the requirements for a salesperson as prescribed under applicable securities legislation and has passed any one of the following examinations:

(A) the Branch Managers Course Exam offered by the CSI Global Education Inc.;

(B) the Mutual Fund Branch Managers' Examination Course Exam offered by the IFSE Institute; or

(C) the Branch Compliance Officers Course Exam offered by the CSI Global Education Inc.

(e) **Experience Requirements**. In addition to the requirements set out in paragraph (d), each branch manager, except alternate branch managers, in respect of a Member shall:

(i) have acted as a salesperson, trading partner, director, officer or compliance officer registered under the applicable securities legislation for a minimum of two years; or

(ii) have a minimum of two years of equivalent experience to that of an individual described in paragraph (i).

(f) **Responsibilities**. The branch manager must:

(i) supervise the activities of the Member at a branch or sub-branch that are directed towards ensuring compliance with the By-laws, Rules and Policies and with applicable securities legislation by the Member and its Approved Persons; and

(ii) supervise the opening of new accounts and trading activity at the branch office.

(g) **Alternates**. In the event that a branch manager is temporarily absent or unable to perform his or her responsibilities, a Member shall designate one or more alternate branch managers who must be qualified as branch managers pursuant to paragraph (d) and who shall carry out the responsibilities of the branch manager, but are not required to be normally present at the branch office.

2.5.6 Currency of Examination

For the purposes of the Rules, an individual is deemed to have not passed an examination or successfully completed a program unless the individual has done so within 36 months before the date the individual applied for registration or such longer period as may be

specified by and subject to relevant requirements as the Corporation may determine if it is satisfied based on the individual's experience that his or her knowledge and proficiency remains relevant and current.

2.5.7 Maintenance of Supervisory Review Documentation

The Member must maintain records of all compliance and supervisory activities undertaken by it and its partners, directors, officers, compliance officers and branch managers pursuant to the By-laws and Rules.

2.5.8 No Delegation

No Member or director, officer, partner, compliance officer, branch manager or alternate branch manager shall be permitted to delegate any supervision or compliance responsibility under the By-laws or Rules in respect of any business of the Member, except as expressly permitted pursuant to the By-laws and Rules.

2.6 BORROWING FOR SECURITIES PURCHASES

Each Member shall provide to each client a risk disclosure document containing the information prescribed by the Corporation when

(a) a new account is opened for the client; and

(b) when an Approved Person makes a recommendation for purchasing securities by borrowing, or otherwise becomes aware of a client borrowing monies for the purpose of investment,

provided that a Member is not required to comply with paragraph (b) if such a risk disclosure document has been provided to the client by the Member within the six month period prior to such recommendation or becoming so aware.

2.7 ADVERTISING AND SALES COMMUNICATIONS

2.7.1 Definitions

For the purposes of the By-laws and Rules:

(a) "advertisement" includes television or radio commercials or commentaries, billboards, internet websites, newspapers and magazine advertisements or commentaries and any published material promoting the business of a Member and any other sales literature disseminated through the communications media; and

(b) "sales communication" includes records, video tapes and similar material, market letters, research reports, and all other published material, except preliminary prospectuses and prospectuses, designed for or use in presentation to a client or a prospective client whether such material is given or shown to them and which includes a recommendation in respect of a security.

2.7.2 General Restrictions

No Member shall issue to the public, participate in or knowingly allow its name to be used in respect of any advertisement or sales communication in connection with its business which:

(a) contains any untrue statement or omission of a material fact or is otherwise false or misleading, including the use of a visual image such as a photograph, sketch, drawing, logo or graph which conveys a misleading impression;

(b) contains an unjustified promise of specific results;

(c) uses unrepresentative statistics to suggest unwarranted or exaggerated conclusions, or fails to identify the material assumptions made in arriving at these conclusions;

(d) contains any opinion or forecast of future events which is not clearly labelled as such;

(e) fails to fairly present the potential risks to the client;

(f) is detrimental to the interests of the public, the Corporation or its Members; or

(g) does not comply with any applicable legislation or the guidelines, policies or directives of any regulatory authority having jurisdiction over the Member.

2.7.3 Review Requirements

No advertisement or sales communication shall be issued unless first approved by a partner, director, officer, compliance officer or branch manager who has been designated by the Member as being responsible for advertisements and sales communications.

2.8 CLIENT COMMUNICATIONS

2.8.1 Definition

For the purposes of the By-laws and Rules "client communication" means any written communication by a Member or an Approved Person to a client of the Member, including trade confirmations and account statements, other than an advertisement or sales communication.

2.8.2 General Restrictions

No client communication shall:

(a) be untrue or misleading or use an image such as a photograph, sketch, logo or graph which conveys a misleading impression;

(b) make unwarranted or exaggerated claims or conclusions or fail to identify the material assumptions made in arriving at these conclusions;

(c) be detrimental to the interests of clients, the public, the Corporation or its Members;

(d) contravene any applicable legislation or any guideline, policy, rule or directive of any regulatory authority having jurisdiction over the Member; or

(e) be inconsistent or confusing with any information provided by the Member or Approved Person in any notice, statement, confirmation, report, disclosure or other information either required or permitted to be given to the client by a Member or Approved Person under the By-laws, Rules, Policies or Forms.

2.8.3 Rates of Return

(a) In addition to complying with the requirements in Rule 2.8.2, any client communication, other than the investment performance report required under Rule 5.3.4, containing or referring to a rate of return regarding a specific account or group of accounts must:

(i) disclose an annualized rate of return calculated in accordance with standard industry practices; and

(ii) explain the methodology used to calculate such rate of return in sufficient detail and clarity to reasonably permit the client to understand the basis for the rate of return.

(b) In addition to complying with the requirements in Rule 2.8.2 and Rule 2.8.3(a), any client communication containing or referring to a rate of return regarding a specific account or group of accounts that is provided by an Approved Person must be approved and supervised by the Member.

2.9 INTERNAL CONTROLS

Every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time.

2.10 POLICIES AND PROCEDURES MANUAL

Every Member shall establish and maintain written policies and procedures (that have been approved by senior management of the Member) for dealing with clients and ensuring compliance with the Rules, By-laws and Policies of the Corporation and applicable securities legislation.

2.11 COMPLAINTS

Every Member shall establish written policies and procedures for dealing with complaints which ensure that such complaints are dealt with promptly and fairly, and in accordance with the minimum standards prescribed by the Corporation from time to time.

2.12 TRANSFERS OF ACCOUNT

2.12.1 Definitions

For the purposes of the By-laws and Rules:

(a) "account transfer" means the transfer in whole or in part of an account of a client of a Member at the request or with the authority of the client;

(b) "delivering Member" means in respect of an account transfer the Member from which the account of the client is to be transferred; and

(c) "receiving Member" means in respect of an account transfer the Member to which the account of the client is to be transferred.

2.12.2 Transfers

No account transfer shall be affected by a Member without the written authorization of the client holding the account. If an account transfer is authorized by a client, a delivering Member and a receiving Member shall act diligently and promptly in order to facilitate the transfer of the account in an orderly and timely manner.

2.13 DISCLOSURE OF MFDA MEMBERSHIP

2.13.1 Definition.

For the purposes of complying with the MFDA membership disclosure requirements under this Rule,

“MFDA Logo” means the logo prescribed by the Corporation, from time to time, for use by Members.

2.13.2 Account Statement.

Members must include the MFDA Logo on the front of each account statement followed by the web address of the official website of the MFDA.

2.13.3 Member Website.

Members must include the MFDA Logo on the Member’s homepage followed by a link to the official website of the MFDA.

3. RULE NO. 3 – FINANCIAL AND OPERATIONS REQUIREMENTS

3.1 CAPITAL

3.1.1 Minimum Levels

(a) Each Member shall have and maintain at all times risk adjusted capital greater than zero, and minimum capital in the amounts referred to below for the Level in which the Member is designated, as calculated in accordance with Form 1 and with such requirements as the Corporation may from time to time prescribe:

Level 1 $25,000 for a Member which is an introducing dealer and which satisfies the requirements of Rule 1.1.6(a) and (b), is not a Level 2, 3 or 4 Member and is not otherwise registered in any other category of registration under securities legislation.

Level 2 $50,000 for a Member which does not hold client cash, securities or other property.

Level 3 $75,000 for a Member which does not hold client securities or other property, except client cash in a trust account.

Level 4 $200,000, for any other Member, including a Member which acts as a carrying dealer in accordance with Rule 1.1.6.

For the purposes of the By-laws, Rules, Policies and Forms, a Member which is required to maintain minimum capital at an amount referred to above is referred to as a Level 1, 2, 3 or 4 Dealer or Member, as the case may be.

(b) Notwithstanding the provisions of paragraph (a), a Member that is registered as an investment fund manager under securities legislation and is a Level 2 or 3 Dealer must maintain minimum capital of at least $100,000.

3.1.2 Notice

If at any time the risk adjusted capital of a Member is, to the knowledge of the Member, less than zero, the Member shall immediately notify the Corporation.

3.2 CAPITAL AND MARGIN

Amendments to Rule 3.2.1 come into effect on December 31, 2021.

3.2.1 Client Lending and Margin

No Member or Approved Person shall permit the purchase of securities by a client on margin. In addition, no Member or Approved Person shall lend money or extend credit

to a client, or provide a guarantee in relation to a loan of money, securities or any other assets to a client, unless any of the following apply:

(a) in the case of a Member, the client is

(i) an Approved Person of the Member, or

(ii) a director, officer, or employee of the Member;

(b) in the case of an Approved Person:

(i) the client and the Approved Person are related to each other for the purposes of the *Income Tax Act* (Canada); and

(ii) the Approved Person has obtained the written approval of their Member to lend the money, extend the credit, or provide the guarantee;

(c) the Member is advancing funds to a client in connection with the redemption of mutual fund securities where:

(i) the Member has received prior confirmation of the redemption order from the issuer of the securities;

(ii) the redemption proceeds to be received (excluding any fees or commissions) are equal to or greater than the amount of funds or credit to be provided;

(iii) the client has authorized payment to and retention by the Member of redemption proceeds;

(iv) the Member maintains a copy of the confirmation of the redemption order and the client's authorization; and

(v) the Member is designated as being in Level 2, 3 or 4 for the purposes of Rule 3.1.1.

3.2.1 Client Lending and Margin

No Member or Approved Person shall lend or extend credit to a client or permit the purchase of securities by a client on margin, except as provided for in Rule 3.2.3.

3.2.2 Member Capital

(a) Each Member shall maintain capital in respect of its firm business in accordance with the requirements set out in Form 1.

(b) Each Member shall at all times maintain positive total financial statement capital as calculated in accordance with the requirements set out in Form 1.

3.2.3 Advancing Mutual Fund Redemption Proceeds

No Member shall advance funds or extend credit to or on behalf of a client, directly or indirectly, in connection with the receipt of funds on the redemption of mutual fund securities unless:

(a) the Member has received prior confirmation of the redemption order from the issuer of the securities;

(b) the redemption proceeds to be received (excluding any fees or commissions) are equal to or greater than the amount of funds or credit to be provided;

(c) the client has authorized payment to and retention by the Member of redemption proceeds;

(d) the Member maintains a copy of the confirmation of the redemption order and the client's authorization; and

(e) the Member is designated as being in Level 2, 3 or 4 for the purposes of Rule 3.1.1.

3.2.4 Related Member Guarantees

(a) Each Member shall be responsible for and shall guarantee the obligations to clients incurred by each of its related Members (as defined in By-law 1), and each related Member shall be responsible for and shall guarantee the obligations of the Member to its clients on the following basis:

(i) where a Member holds an ownership interest in a related Member, the Member shall provide a guarantee in an amount equal to 100% of the Member's total financial statement capital (as determined in accordance with Form 1);

(ii) where a Member holds an ownership interest in a related Member, the related Member shall provide a guarantee of the Member in an amount equal to the percentage of the related Member’s total financial statement capital (as determined in accordance with Form 1) that corresponds to the percentage of ownership interest the Member holds in the related Member; and

(iii) where two related Members are related because of a common ownership interest held by the same person(s), each related Member shall provide a guarantee of the other in an amount equal to the percentage of its total financial statement capital (as determined in accordance with Form 1) that corresponds to the percentage ownership interest held by the person(s) who holds the common ownership interest.

(b) A guarantee shall not be required at all or in the amount prescribed in accordance with Rule 3.2.4(a) where the Corporation in its discretion determines that a guarantee is not appropriate.

(c) A guarantee shall be required in such greater or lesser amount as prescribed in Rule 3.2.4(a) where the Corporation in its discretion determines that such greater or lesser guarantee amount is appropriate.

(d) A guarantee required pursuant to this Rule 3.2.4 shall be in the form prescribed from time to time by the Corporation.

3.2.5 Notice Regarding Accelerated Payment of Long Term Debt

Each Member shall immediately notify the Corporation of any request or demand by a creditor for accelerated payments or any other payments in addition to those specified under the agreed regular repayment schedule with respect to contingent and long term liabilities owed by the Member.

3.3 SEGREGATION OF CLIENT PROPERTY

3.3.1 General

Each Member that holds cash, securities or other property of its clients shall hold such cash, securities or property separate and apart from its own property and in trust for its clients in accordance with this Rule 3.3.

3.3.2 Cash

(a) **Trust Account**. All cash held by a Member on behalf of clients shall be held separate and apart from the property of the Member in a designated trust account with a financial institution (which is an acceptable institution for the purposes of Form 1).

(b) **Determination**. Each Member shall determine on a daily basis the amount of cash it holds for clients and that is required to be held in segregation pursuant to this Rule 3.3.

(c) **Deficiency**. In the event of a deficiency in the amount of cash required to be held in trust for a client, the Member shall immediately provide from its own funds an amount necessary to correct the deficiency and any unsatisfied obligation to do so shall be immediately charged to the capital of the Member.

(d) **Notice to Institution**. The Member must advise the financial institution in writing that:

(i) the account is established for the purpose of holding client funds in trust and the account shall be designated as a "trust account";

(ii) money may not be withdrawn, including by way of electronic transfer, by any person other than authorized employees of the Member; and

(iii) the money held in trust may not be used to cover shortfalls in any other accounts of the Member.

(e) **Payment of Interest**. The Member must disclose to clients whether interest will be paid on client cash held in trust and the rate. Notwithstanding this requirement, the Member may retain the interest earned in excess of the amount of interest payable to the client. The Member may only revise the rate of interest upon the delivery of at least 60 days written notice to the client.

3.3.3 Securities

(a) **Internal Locations**. For the purposes of Rule 3.3.1, a Member may hold securities or other investment products within the physical possession or control of the Member segregated and held in trust for clients of the Member, provided that all internal storage locations are designated in the Member's ledger of accounts and the Member has adequate internal accounting controls and systems for safeguarding of securities held for clients.

(b) **External Locations**. For the purposes of Rule 3.3.1, securities or other investment products held beyond the physical possession of the Member must be segregated and held in trust for clients of a Member, or segregated and held by or for a Member, as the case may be, in acceptable securities locations, provided that the written terms upon which such securities or other investment products are deposited and held beyond the physical possession of the Member include provisions to the effect that:

(i) no use or disposition of the securities or products shall be made without the prior written consent of the Member;

(ii) certificates representing the securities or products can be delivered to the Member promptly on demand or, where certificates are not available and the securities are represented by book entry at the location, the securities or products can be transferred either from the location or to another person at the location promptly on demand; and

(iii) the securities or products are held in segregation for the Member 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 or products.

(c) **Bulk Segregation**. A Member, which holds securities or property of clients in segregation in accordance with Rule 3.3.1 may hold securities or property in bulk segregation provided that the Member identifies in its records the amount and kind of each security or property held for each client. The Member shall determine, for all accounts of each client the market value and number of all securities to be held for the client.

(d) **General Restrictions**. In complying with its obligation to segregate client securities in accordance with Rule 3.3.1, each Member shall ensure that:

(i) a segregation deficiency is not knowingly created or increased; and

(ii) all securities of clients received by the Member are segregated.

(e) **Correction of Segregation Deficiencies**. In the event that a segregation deficiency exists, the Member shall expeditiously take the most appropriate action required to settle the segregation deficiency. If for any reason the deficiency has not been settled within 30 days of being discovered, the Member shall immediately purchase the securities or property for the account of the client.

3.4 EARLY WARNING

3.4.1 Definitions

The terms and definitions used in this Rule 3.4 shall have the same meanings as used in Form 1, unless otherwise defined in the By-laws or Rules or the context requires.

3.4.2 (a) Designation

A Member shall be designated in early warning according to its capital, profitability and liquidity position from time to time and frequency of designation or at the discretion of the Corporation as provided in this Rule 3.4 if at any time:

(i) *Capital*
Its risk adjusted capital is less than zero; or

(ii) *Liquidity*
Its early warning excess is less than zero; or

(iii) *Profitability*
Its risk adjusted capital at the time of calculation is less than the net loss (before bonuses, income taxes and extraordinary items) for the most recent quarter.

(iv) *Frequency*
It has been designated in early warning more than two times in the preceding twelve months.

(v) *Discretionary*
The condition of the Member, in the sole discretion of the Corporation, 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 Member is a new Member or the Member has been late in any filing or reporting required pursuant to the By-laws and Rules.

(b) Requirements

If a Member is designated in early warning then, notwithstanding the provisions of any By-law or Rule, the following provisions shall apply:

(i) the chief executive officer and chief financial officer of the Member shall immediately deliver to the Corporation a letter containing the following:

(A) advice of the fact that any of the circumstances in Rule 3.4.2 are applicable,

(B) an outline of the problems associated with the circumstances referred to in (A),

(C) an outline of the proposal of the Member to rectify the problems identified, and

(D) an acknowledgement that the Member is in early warning category and that the restrictions contained in Rule 3.4.2(b)(iv) apply,

a copy of which letter shall be provided to the Member's auditor;

(ii) the Corporation shall immediately designate the Member as being in early warning and shall deliver to the chief executive officer and chief financial officer a letter containing the following:

(A) advice that the Member is designated as being in early warning,

(B) a request that the Member file its next monthly financial report required pursuant to Rule 3.5.1(a) no later than 15 business days or, in the discretion of the Corporation if considered to be practicable, such earlier time following the end of the relevant month,

(C) a request that the Member respond to the letter as required under Rule 3.4.2(b)(iii) and confirmation that such response, together with the notice received pursuant to Rule 3.4.2(b)(i), will be forwarded to MFDA Investor Protection Corporation and may be forwarded to any securities commission having jurisdiction over the Member,

(D) advice that the restrictions referred to in Rule 3.4.2(b)(iv) shall apply to the Member,

(E) such other information as the Corporation shall consider relevant;

(iii) the chief executive officer and the chief financial officer of the Member shall respond by letter signed by them both within five business days of receipt of the letter referred to in Rule 3.4.2(b)(ii), with a copy to be sent to the auditor of the Member, containing the information and

acknowledgement required pursuant to Rule 3.4.2(b)(i)(B), (C) and (D), to the extent not previously provided, or an update of such information if any material circumstances or facts have changed;

(iv) if and so long as the Member remains designated as being in early warning, it shall not without the prior written consent of the Corporation:

(A) reduce its capital in any manner including by redemption, re-purchase or cancellation of any of its shares,

(B) reduce or repay any indebtedness which has been subordinated with the approval of the Corporation,

(C) directly or indirectly make 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, affiliate or associate,

(D) increase its non-allowable assets (as specified by the Corporation) 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 Member,

(v) if and so long as the Member remains designated as being in early warning, it shall continue to file its monthly financial reports within the time specified pursuant to Rule 3.4.2(b)(ii)(B),

(vi) after the Member is designated as being in an early warning category, the Corporation may conduct an on-site review of the Member's procedures for monitoring capital on a daily basis and prepare a report as to the results of the review, or

(vii) the Corporation may request and the Member shall provide in such time as the Corporation considers practicable, such reports or information, on a daily or a less frequent basis, as may be necessary or desirable in the opinion of the Corporation to assess and monitor the financial condition or operations of the Member.

(c) Prohibited Transactions

No Member shall enter into any transaction or take any action, as described in Rule 3.4.2(b)(iv), which, when completed, would have or would reasonably be expected to have the effect on the Member as described in Rule 3.4.2(a), without first notifying the Corporation in writing of its intention to do so and receiving the written approval of the Corporation prior to implementing such transaction or action.

3.4.3 Restrictions

The Corporation may in its discretion, without affording the Member a hearing, prohibit a Member which is designated as being in early warning from opening any new branch offices, hiring any new Approved Persons, opening any new client accounts or changing in any material respect the investment positions of the Member. Any such prohibitions which have been imposed shall continue to apply until the Member is no longer designated as being in early warning, as demonstrated by the latest filed monthly financial report of the Member.

3.4.4 Duration

A Member shall remain designated as being in early warning and subject to the provisions in this Rule 3.4 as are applicable, until the latest filed monthly financial reports of the Member, or such other evidence or assurances as may be appropriate in the circumstances demonstrate, in the opinion of the Corporation that the Member no longer is required to be designated as being in early warning and the Member has otherwise complied with this Rule 3.4.

3.5 FILING REQUIREMENTS

3.5.1 Monthly and Annual

Each Member shall:

(a) file monthly with the Corporation within 20 business days of the month's end a copy of a financial report of the Member as at the end of each fiscal month or at such other date as may be agreed with the Corporation. Such monthly financial reports shall contain or be accompanied by such information as may be prescribed by the Corporation from time to time; and

(b) file annually with the Corporation two copies of the audited financial statements of the Member as at the end of the Member's fiscal year or as at such other fixed date as may be agreed with the Corporation. Such statements shall be in such form, shall contain such information and shall be supplemented by such additional schedules as the Corporation may from time to time prescribe, and shall be filed through the Member's auditor within 90 days of the date as of which such statements are required to be prepared;

3.5.2 Combined Financial Statements

In calculating the risk adjusted capital of a Member, the financial position of the Member may, with the prior approval of the Corporation, be combined (in a manner as set out below) with that of any related Member provided that:

(a) the Member has guaranteed the obligations of such related Member and the related Member has guaranteed the obligations of the Member (such guarantee to be in a form acceptable to the Corporation and unlimited in amount).

(b) inter-company accounts between the Member and the related Member shall be eliminated;

(c) any minority interests in the related Member shall be eliminated from the capital calculation; and

(d) calculations with respect to the Member and the related Member shall be as of the same date.

3.5.3 Members' Auditors

(a) **Examination**. Every Member's auditor shall examine the accounts of the Member as at the date referred to in Rule 3.5.1 and shall make a report thereon in such form as the Corporation may from time to time prescribe. Each Member's auditor shall also make such additional examinations and reports as the Corporation may from time to time request or direct.

(b) **Standards**. The Member's auditor shall conduct his or her examination of the accounts of the Member in accordance with Canadian generally accepted auditing standards and the scope of his or her procedures shall be sufficiently extensive to permit him or her to express an opinion on the Member's financial statements in the form prescribed. Without limiting the generality of the foregoing, the scope of the examination shall, where applicable, include at least the procedures set out in Rule 3.6.

(c) **Access to Books and Records**. Every Member's auditor for the purpose of any such examination shall be entitled to free access to all books of account, securities, cash, documents, bank accounts, vouchers, correspondence and records of every description of the Member being examined or its affiliates or its related Members, and no Member, affiliate or related company, as the case may be, shall withhold, destroy or conceal any information, document or thing reasonably required by the Member's auditor for the purpose of such examination.

3.5.4 Assessments

(a) **Excessive Attention**. If at any time the Corporation is of the opinion that the financial condition or conduct of the business of any Member has required excessive attention from the Corporation and that it would be in the interests of the Corporation that the Corporation be reimbursed by such Member, the Corporation shall have the power to impose an assessment against such Member.

(b) **Late Filing**. Each Member shall be liable for and pay to the Corporation levies or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Member, its auditors or any person acting on its behalf, to file any report, form, financial statement or other information required under this Rule 3 within the times prescribed by this Rule 3, the Corporation or the terms of such report, form, financial statement or other information, as the case may be.

3.6 AUDIT REQUIREMENTS

3.6.1 Standards

The audit under Rule 3.5 shall be conducted in accordance with Canadian generally accepted auditing standards and shall include a review of the accounting system, the internal accounting control and procedures for safeguarding assets. It shall include all audit procedures necessary under the circumstances to support the opinions which must be expressed in the Member's auditor's reports of Parts I and II of Form 1. Because of the nature of the industry, the substantive audit procedures relating to the financial position must be carried out as of the audit date and not as of an earlier date, notwithstanding that the audit is otherwise conducted in accordance with Canadian generally accepted auditing standards.

3.6.2 Scope

(a) *Tests*. The scope of the audit shall include the following procedures, but nothing herein shall be construed as limiting the audit or permitting the omission of any additional audit procedure which any Member's auditor would deem necessary under the circumstances. For purposes of this Rule tests fall into two basic categories (as described in CICA Handbook):

(i) specific item tests, whereby the auditor examines individual items which he or she considers should be examined because of their size, nature or method of recording; and

(ii) representative item tests, whereby the auditor’s objective is to examine an unbiased selection of items.

The determination of an appropriate sample on a representative basis may be made using either statistical or non-statistical methods in accordance with Canadian generally accepted auditing standards.

In determining the extent of the tests appropriate in sub-sections (i), (ii) and (iii) of (b) below, the Member's auditor should 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 aggregate is reduced to an appropriately low level (e.g. in relation to the estimated risk adjusted capital and early warning excess).

(b) *Audit Procedures*. The Member's auditor shall as of the audit date:

(i) compare ledger accounts with the trial balances obtained from the general and subsidiary ledgers and substantiate the subsidiary ledger totals with their respective control accounts (see Rule 3.6.4 below relating to Electronic Data Processing);

(ii) account for, by physical examination and comparison with the books and records, all securities in the physical possession of the Member;

(iii) review the reconciliation of all mutual fund companies and financial institutions where a Member operates a nominee name account and review the balancing of all positions. Where a position or account is not in balance according to the records, 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 Form 1 for any potential loss;

(iv) review bank reconciliations and by appropriate audit procedures substantiate on a test basis the reconciliations with the ledger control accounts as of the audit date;

(v) where a Member operates a nominee name account or has its own securities or investment products, ensure that all custodial agreements are in place for those lodged with acceptable locations and that such agreements satisfy the minimum requirements of the Corporation;

(vi) obtain written confirmation with respect to the following:

(A) bank balances and other deposits;

(B) cash, nominee name positions and deposits with clearing houses and like organizations and cash and nominee name positions with mutual fund companies and financial institutions;

(C) cash and investments loaned or borrowed (including subordinated loans) together with details of collateral received or pledged, if any;

(D) accounts with brokers or dealers;

(E) accounts of directors, partners or officers of the Member held by the Member where the Member operates a nominee name account;

(F) accounts of clients where a Member operates a nominee name account;

(G) statements from the Member's lawyers as to the status of lawsuits and other legal matters pending which, if possible, should include an estimate of the extent of the liabilities so disclosed; and

(H) all other accounts which in the opinion of the Member's Auditor should be confirmed.

Compliance with the confirmation requirements shall be deemed to have been made if positive requests for confirmation have been sent by, and returned directly to, the Member's auditor and second requests are similarly

sent to those not replying to the initial request. Appropriate alternative verification procedures must be used where replies to second requests have not been received. For accounts mentioned in (D) and (F) above, the Member's auditor shall (1) select specific accounts for positive confirmation based on their size (all accounts with equity exceeding a certain monetary amount, with such amount being related to the level of materiality) and other characteristics such as accounts in dispute, and (2) 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 (D) and (F) above that are not confirmed positively, the Member's auditor shall send 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 shall also be confirmed on a test basis using either positive or negative confirmation procedures, the extent to be governed by the adequacy of the system of internal control;

(vii) subject the Statements in Part I and Schedules in Part II of Form 1 to audit tests and/or other auditing procedures to determine that the margin and capital requirements, which are used in the determination of the excess (deficiency) of risk adjusted capital are calculated in accordance with the Rules and Form 1 in all material respects in relation to the financial statements taken as a whole;

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

(ix) complete and report on the results of applying the prescribed procedures contained in the Report on Compliance for Segregation of Cash and Securities in Form 1.

3.6.3 Additional Reporting

In addition, the Member's auditor shall:

(a) complete and report on the results of applying the prescribed procedures contained in the Report on Compliance for Insurance in Form 1; and

(b) report on any subsequent events, to date of filing, which have had a material adverse effect on the excess (deficiency) of risk adjusted capital.

3.6.4 Systems Review

The Member's auditors' review of the accounting system, the internal accounting control and procedures for safeguarding securities prescribed in the above Audit Requirements should encompass any in-house or service bureau EDP operations. As a result of such review and evaluation the Member'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.

3.6.5 Retention

Copies of Form 1 and all audit working papers shall be retained by the Member's auditor for seven years. The two most recent years shall be kept in a readily accessible location. All working papers shall be made available for review by the Corporation and the MFDA Investor Protection Corporation and the Member shall direct its auditor to provide such access on request.

3.6.6 Report to Corporation

If the Member's auditor observes during the regular conduct of his or her audit any material breach of the By-laws or Rules pertaining to the calculation of the Member's financial position, handling and custody of securities and maintenance of adequate records he or she shall make a report to the Corporation.

3.6.7 Reliance

The reports and audit opinions required in respect of a Member under this Rule 3.6 shall be addressed to the Corporation and the MFDA Investor Protection Corporation in conjunction with the Member who shall be entitled to rely on them for all purposes.

3.6.8 Qualification

The reports and audit opinions referred to in this Rule 3.6 shall be signed by an engagement partner on behalf of the Member's auditor who shall (i) be authorized to do so in accordance with applicable legislation in the jurisdiction in which the principal office of the Member is located, (ii) be acceptable to the Corporation in accordance with By-law 11.2.1, and (iii) have acknowledged in writing to the Corporation and the Member that it is familiar with the then current By-laws, Rules, Policies and Forms as they relate to the matters required to be reported on therein.

4. RULE NO. 4 – INSURANCE

4.1 FINANCIAL INSTITUTION BOND

Every Member shall, by means of a Financial Institution Bond or Bonds (with Discovery Rider attached or Discovery Provisions incorporated in the Bond) and/or mail insurance, effect and keep in force insurance against losses arising as follows:

Clause (A) - Fidelity - Any loss through any dishonest or fraudulent act of any of its employees or agents, committed anywhere and whether committed alone or in collusion with others, including loss of property through any such act of any of the employees;

Clause (B) - On Premises - Any loss of cash and securities or other property through robbery, burglary, theft, hold-up or other fraudulent means, mysterious disappearance, damage or destruction while within any of the insured's offices, the offices of any banking institution or clearing house or within any recognized place of safe-deposit, as more fully defined in the Standard Form of Financial Institution Bond (herein referred to as the "Standard Form");

Clause (C) - In Transit and Mail - Any loss of cash and securities or other property through robbery, burglary, theft, hold-up, misplacement, mysterious disappearance, damage or destruction, while in transit or in the mail;

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 cash, excluding securities, as more fully defined in the Standard Form;

Clause (E) - Securities - Any loss through having purchased or acquired, sold or delivered, 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.

A Member is not required to effect and keep in force mail insurance where the Member does not use mail for outgoing shipments of cash, securities or other property, negotiable or non-negotiable.

4.2 NOTICE OF TERMINATION

Each Financial Institution Bond maintained by a Member shall contain a rider containing provisions to the following effect:

(i) The underwriter shall notify the Corporation at least 30 days prior to the termination or cancellation of the Bond, except in the event of termination of the Bond due to:

(A) the expiration of the Bond period specified;

(B) cancellation of the Bond as a result of the receipt of written notice from the insured of its desire to cancel the Bond;

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

(D) taking over of the insured by another institution or entity.

(ii) In the event of termination of the Bond as an entirety in accordance with clauses (i)(B), (i)(C) or (i)(D), the underwriter shall, upon becoming aware of such termination, give immediate written notice of the termination to the Corporation. Such notice shall not impair or delay the effectiveness of the termination.

4.3 TERMINATION OR CANCELLATION

In the event of the take-over of a Member by another institution or entity as described in Rule 4.2(D) the Member shall ensure that there is bond coverage which provides a period of twelve months from the date of such take-over within which to discover the losses, if any, sustained by the Member prior to the effective date of such take-over and the Member shall pay, or cause to be paid, any applicable additional premium.

4.4 AMOUNTS REQUIRED

4.4.1 Minimum

The minimum amount of insurance to be maintained for each Clause under Rule 4.1 shall be the greater of:

(a) in the case of a Member designated as a Level 1, 2 or 3 Dealer, $50,000 for each Approved Person up to a maximum of $200,000; and for a Level 4 Dealer, $500,000; and

(b) 1% of the base amount (as defined herein);

provided that for each Clause such minimum amount need not exceed $25,000,000.

4.4.2 Base Amount

For the purposes of this Rule 4.4, the term "base amount" shall mean the greater of:

(a) the net value of cash and securities held by the Member on behalf of clients; and

(b) the total allowable assets of the Member determined in accordance with Statement A of Form 1.

4.5 PROVISOS

Rules 4.1, 4.2 and 4.4 shall be subject to the following:

(a) the amount of insurance required to be maintained by a Member shall as a minimum be by way of a Financial Institution Bond with a double aggregate limit or a provision for full reinstatement;

(b) should there be insufficient coverage, a Member shall be deemed to be complying with this Rule 4 provided that any such deficiency does not exceed 10 percent of the insurance requirement and that evidence is furnished within two months of the dates of completion of the monthly operations questionnaires and the annual audit that the deficiency has been corrected. If the deficiency is 10% or more of the insurance requirement, action must be taken by the Member to correct the deficiency within 10 days of its determination and the Member shall immediately notify the Corporation;

(c) a Financial Institution Bond maintained pursuant to Rule 4.1 may contain a clause or rider stating that all claims made under the bond are subject to a deductible.

4.6 QUALIFIED CARRIERS

Insurance required to be effected and kept in force by a Member pursuant to this Rule 4 may be underwritten directly by 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 Corporation. No foreign insurer shall be approved by the Corporation unless the insurer has the minimum net worth required of $75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection and the Corporation 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.

4.7 GLOBAL FINANCIAL INSTITUTION BONDS

Where the insurance maintained by a Member in respect of any of the requirements under this Rule 4 names as the insured or benefits the Member, together with any other person or group of persons, whether within Canada or elsewhere, the following must apply:

(a) the Member shall have the right to claim directly against the insurer in respect of losses, and any payment or satisfaction of such losses shall be made directly to the Member; and

(b) the individual or aggregate limits under the policy may only be affected by claims made by or on behalf of

(i) the Member, or

(ii) any of the Member's subsidiaries whose financial results are consolidated with those of the Member, or

(iii) a holding company of the Member provided that the holding company does not carry on any business or own any investments other than its interest in the Member,

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

5. RULE NO. 5 – BOOKS, RECORDS & REPORTING

Amendments to Rule 5.1 come into effect on December 31, 2021.

5.1 REQUIREMENT FOR RECORDS

Every Member shall keep such books, records and other documents as are necessary for the proper recording of its business transactions and financial affairs and the transactions that it executes on behalf of others and shall keep such other books, records and documents as may be otherwise required by the Corporation. Such books and records shall contain as a minimum the following:

(a) blotters, or other records, containing an itemized daily record of:

(i) all purchases and sales of securities;

(ii) all receipts and deliveries of securities, including certificate numbers;

(iii) all receipts and disbursements of cash;

(iv) all other debits and credits, the account for which each transaction was effected;

(v) the name of the securities;

(vi) the class or designation of the securities;

(vii) the number or value of the securities;

(viii) the unit and aggregate purchase or sale price; and

(ix) the trade date and the name or other designation of the person from whom the securities were purchased or received or to whom they were sold or delivered;

(b) an adequate record of each order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. Such record shall show:

(i) the terms and conditions of the order or instructions and of any modification or cancellation thereof;

(ii) the account for which entered or received;

(iii) the time of entry or receipt, the price at which executed and, to the extent feasible, the time of execution or cancellation; and

(iv) evidence that the client was informed of all fees and charges in accordance with Rule 2.4.4

(c) where the order or instruction is placed by an individual other than the person in whose name the account is operated, or an individual duly authorized to place orders or instructions on behalf of a client that is a company, the name, sales number or designation or the individual placing the order or instruction shall be recorded;

(d) copies of confirmations of all purchases and sales of securities and copies of all other debits and credits for securities, cash and other items for the account of clients;

(e) a record of the proof of cash balances of all ledger accounts in the form of trial balances and a record of calculation of minimum capital, adjusted liabilities and risk adjusted capital required;

(f) all cheque books, bank statements, cancelled cheques and cash reconciliations;

(g) all bills receivable or payable (or copies thereof), paid or unpaid, relating to the business of the Member;

(h) all limited trading authorizations in respect of any account, and copies of resolutions empowering an agent to act on behalf of a corporation;

(i) all written agreements (or copies thereof) entered into by such Member relating to their business as such, including leveraging documentation, disclosure materials and agreements relating to any account; and

(j) all documentation relating to an advance of funds or extension of credit to or on behalf of a client, directly or indirectly, in connection with the receipt of funds on the redemption of mutual fund securities, including the prior written confirmation referred to in Rule 3.2.3;

(k) records which demonstrate compliance with Rules 2.2.1 (Know-Your-Client), 2.2.5 (Know-Your-Product), and 2.2.6 (suitability determination) requirements;

(l) records which demonstrate compliance with Rule 2.1.4 (Conflicts of Interest);

(m) records which demonstrate compliance with Rule 1.2.5 (Misleading Communications);

(n) records which demonstrate compliance with complaint handling requirements, prescribed under Rule 2.11, and Policy No. 3;

(o) records which document correspondence with clients;

(p) records which document compliance and supervision actions taken by the firm;

(q) records which document training prescribed under Rule 1.2.4, Policy No. 1, and Policy No. 9;

(r) records which document:

(i) the Member's sales practices, compensation arrangements, and incentive practices;

(ii) other compensation arrangements and incentive practices from which the Member or its Approved Persons or any affiliate or associate of the Member benefit; and

(s) records which demonstrate compliance with Rule 2.2.8 (Conditions for Temporary Hold).

5.1 REQUIREMENT FOR RECORDS

Every Member shall keep such books, records and other documents as are necessary for the proper recording of its business transactions and financial affairs and the transactions that it executes on behalf of others and shall keep such other books, records and documents as may be otherwise required by the Corporation. Such books and records shall contain as a minimum the following:

(a) blotters, or other records, containing an itemized daily record of:

(i) all purchases and sales of securities;

(ii) all receipts and deliveries of securities, including certificate numbers;

(iii) all receipts and disbursements of cash;

(iv) all other debits and credits, the account for which each transaction was effected;

(v) the name of the securities;

(vi) the class or designation of the securities;

(vii) the number or value of the securities;

(viii) the unit and aggregate purchase or sale price; and

(ix) the trade date and the name or other designation of the person from whom the securities were purchased or received or to whom they were sold or delivered;

(b) an adequate record of each order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. Such record shall show:

(i) the terms and conditions of the order or instructions and of any modification or cancellation thereof;

(ii) the account for which entered or received;

(iii) the time of entry or receipt, the price at which executed and, to the extent feasible, the time of execution or cancellation; and

(iv) evidence that the client was informed of all fees and charges in accordance with Rule 2.4.4

(c) where the order or instruction is placed by an individual other than the person in whose name the account is operated, or an individual duly authorized to place orders or instructions on behalf of a client that is a company, the name, sales number or designation or the individual placing the order or instruction shall be recorded;

(d) copies of confirmations of all purchases and sales of securities and copies of all other debits and credits for securities, cash and other items for the account of clients;

(e) a record of the proof of cash balances of all ledger accounts in the form of trial balances and a record of calculation of minimum capital, adjusted liabilities and risk adjusted capital required;

(f) all cheque books, bank statements, cancelled cheques and cash reconciliations;

(g) all bills receivable or payable (or copies thereof), paid or unpaid, relating to the business of the Member;

(h) all limited trading authorizations in respect of any account, and copies of resolutions empowering an agent to act on behalf of a corporation;

(i) all written agreements (or copies thereof) entered into by such Member relating to their business as such, including leveraging documentation, disclosure materials and agreements relating to any account; and

(j) all documentation relating to an advance of funds or extension of credit to or on behalf of a client, directly or indirectly, in connection with the receipt of funds on the redemption of mutual fund securities, including the prior written confirmation referred to in Rule 3.2.3.

5.2 STORAGE MEDIUM

All records and documents required to be maintained by a Member in writing or otherwise may be kept by means of mechanical, electrical, electronic or other devices provided:

(a) such method of record keeping is not prohibited under any applicable legislation;

(b) there are appropriate internal controls in place, to guard against the risk of falsification of the information recorded;

(c) such method provides a means to furnish promptly to the Corporation upon request legible, true and complete copies of those records of the Member which are required to be preserved; and

(d) the Member has suitable back-up and disaster recovery programs.

5.3 CLIENT REPORTING

(1) Definitions

For the purpose of client reporting requirements under Rule 5.3:

(a) "book cost" means the total amount paid to purchase an investment, including any transaction charges related to the purchase, adjusted for reinvested distributions, returns of capital and corporate reorganizations;

(b) "connected issuer" has the same meaning as in section 1.1 of National Instrument 33-105 *Underwriting Conflicts*;

(c) "cost" for each investment position in the account means, subject to paragraphs (i), (ii) and (iii), either "book cost" or "original cost", provided that only one cost calculation methodology, either "book cost' or "original cost," is used for all positions;

(i) **Investment Positions Opened before December 31, 2015**. For investment positions opened before December 31, 2015, means cost, as determined in accordance with subsection 5.3(1)(c), above; or the market value of the investment position as at December 31, 2015 or an earlier date, if the Member reasonably believes accurate, recorded historical market value information is available for the client's account and it would not be misleading to the client to provide that information as at the earlier date;

(ii) **Investment Positions Transferred In:** For investment positions transferred into an account at the Member, means cost as determined in accordance with subsection 5.3(1)(c), above; or the market value of the investment position as at the date of the position's transfer if it is also disclosed in the account statement that it is the market value, not the cost of the investment position, that is being disclosed; and

(iii) **Where Cost Not Determinable:** Where a Member reasonably believes that it cannot determine cost in respect of an investment position, the Member must provide disclosure of that fact in the statement.

(d) "investment" means any asset, excluding cash, held or transacted in an account of the Member;

(e) "marketplace" has the same meaning as in section 1.1 of National Instrument 21-101 *Marketplace Operation*;

(f) "market value" of a security has the meaning given to it under MFDA Form 1 *Financial Questionnaire and Report*;

(g) "operating charge" means any amount charged to a client by a Member in respect of the operation, transfer or termination of a client's account and includes any federal, provincial or territorial sales taxes paid on that amount;

(h) "original cost" means the total amount paid to purchase an investment, including any transaction charges related to the purchase;

(i) "related issuer" has the same meaning as in section 1.1 of National Instrument 33-105 *Underwriting Conflicts*;

(j) "total percentage return" means the cumulative realized and unrealized capital gains and losses of an investment, plus income from the investment, over a specified period of time, expressed as a percentage;

(k) "trailing commission" means any payment related to a client's ownership of a security that is part of a continuing series of payments to a Member or Approved Person by any party;

(l) "transaction charge" means any amount charged to a client by a Member and includes any federal, provincial or territorial sales taxes paid on that amount.

5.3.1 Delivery of Account Statement

Each Member shall, in a timely manner, send an account statement to each client at least once every three months.

5.3.2 Content of Account Statement.

Each account statement must contain the following information:

(a) **General Information**.

(i) the type of account;

(ii) the account number;

(iii) the period covered by the statement;

(iv) the name of the Approved Person(s) servicing the account, if applicable;

(v) the name, address and telephone number of the Member; and

(vi) as applicable, the definition of "book cost" or "original cost", as set out under Rules 5.3(1)(a) and (h).

(b) **Account Activity**.

for each transaction made for or in respect of the client, in an account at the Member, during the period covered by the statement:

(i) the date of the transaction;

(ii) the type of transaction;

(iii) the total value of the transaction;

for each transaction that is a purchase, sale or transfer made for the client, in an account at the Member, during the period covered by the statement:

(iv) the name of the investments;

(v) the number of investments; and

(vi) the price per investment.

(c) **Market Value and Cost Reporting**.

for all investments in an account at the Member:

(i) as at the beginning of the period for which the statement is made:

(A) the total market value of all cash and investments in the account; and

(ii) as at the end of the period for which the statement is made:

(A) the name and quantity of each investment in the account;

(B) the market value of each investment in the account and, if applicable, a notification to the client that there is no active market for the investment and that its value has been estimated. Where a value cannot be reliably determined, the Member must include the following notification or a notification that is substantially similar: "*Market value not determinable*."

(C) the cost of each investment position presented on an average cost per unit or share basis or on an aggregate basis, and determined as at the end of the applicable period. Where market value is used to determine the cost of an investment position, disclosure of that fact must be provided in the account statement;

(D) the total cost of all investment positions;

(E) the total market value of each investment position in the account;

(F) any cash balance in the account;

(G) the total market value of all cash and investments in the account; and

(H) disclosure in respect of the party that holds or controls each investment and a description of the way it is held.

(d) **Deferred Sales Charges**. Each account statement must disclose which securities may be subject to deferred sales charges if they are sold.

(e) **MFDA IPC Coverage**. Each account statement must include disclosure, as established by the MFDA IPC, respecting MFDA IPC coverage.

5.3.3 Report on Charges and Other Compensation

(1) **Content of Report on Charges and Other Compensation**. For each 12 month period, a Member must deliver to a client a report on charges and other compensation containing the following information, except that the first report delivered after a client has opened an account may cover a period of less than 12 months:

(a) the Member's current operating charges which might be applicable to the client's account;

(b) the total amount of each type of operating charge related to the client's account paid by the client during the period covered by the report, and the total amount of those charges;

(c) the total amount of each type of transaction charge related to the purchase or sale of securities paid by the client during the period covered by the report, and the total amount of those charges;

(d) the total amount of the operating charges reported under subsection (b) and the transaction charges reported under subsection (c);

(e) if the Member purchased or sold debt securities for the client during the period covered by the report, either of the following:

(i) the total amount of any mark-ups, mark-downs, commissions or other service charges the Member applied on the purchases or sales of debt securities;

(ii) the total amount of any commissions charged to the client by the Member on the purchases or sales of debt securities and, if the Member applied mark-ups, mark-downs or any service charges other than commissions on the purchases or sales of debt securities, the following notification or a notification that is substantially similar:

"For debt securities purchased or sold for you during the period covered by this report, dealer firm remuneration was added to the price you paid (in the case of a purchase) or deducted from the price you received (in the case of a sale). This amount was in addition to any commissions you were charged."

(f) the total amount of each type of payment, other than a trailing commission, that is made to the Member or any of its Approved Persons by a securities issuer or another registrant in relation to registerable services to the client during the period covered by the report, accompanied by an explanation of each type of payment;

(g) if the Member received trailing commissions related to securities owned by the client during the period covered by the report, the following notification or a notification that is substantially similar:

"We received $[amount] in trailing commissions in respect of securities you owned during the 12-month period covered by this report.

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

(2) The information required to be reported under subsection 5.3.3(1) must be delivered in a separate report on charges and other compensation for each account of the client;

(3) A Member may provide a report on charges and other compensation that consolidates into a single report the required information for more than one of a client's accounts if the following apply:

(a) the client has consented in writing; and

(b) the consolidated report specifies which accounts it consolidates.

(4) **Consolidated Reporting for Same Accounts**. Where a consolidated report on charges and other compensation is sent to the client pursuant to Rule 5.3.3(3) and a consolidated performance report is sent to the client pursuant to Policy No. 7 (Performance Reporting), General Requirements, subsection (2), both consolidated reports must consolidate information for the same accounts.

(5) **Disclosure of Compensation Not Reported**. Where a Member receives compensation or other payments in respect of an investment that is not a security, during the period covered by the report, the Member must either:

(i) disclose the information required under Rule 5.3.3(1) in respect of the investment; or

(ii) indicate that compensation or payments received related to the investment have not been included in the report on charges and compensation being provided to the client.

5.3.4 Performance Report

A Member must deliver a performance report, in respect of all investments required to be reported under Rule 5.3.2, to a client every 12 months, except that the first report delivered after a Member first makes a trade or transfer for a client may be sent within 24 months after that trade or transfer. The performance report must include:

(i) the annual change in the market value of the client's account for the 12-month period covered by the report;

(ii) the cumulative change in the market value of the account, since the account was opened;

(iii) the amount of the annualized total percentage return for the client's account calculated net of charges, using a money-weighted rate of return calculation method generally accepted in the securities industry, provided for 1, 3, 5 and 10 year periods and since account inception; and

must otherwise meet the requirements set out under Policy No. 7 (Performance Reporting).

5.3.5 Delivery of Report on Charges and Other Compensation and Performance Report

(1) A report under Rule 5.3.3 – Report on Charges and Other Compensation and a report under Rule 5.3.4 – Performance Report must include information for the same 12 month period and the reports must be delivered together in one of the following ways:

(a) combined with the account statement required to be delivered under Rule 5.3.1;

(b) accompanying the account statement required to be delivered under Rule 5.3.1; or

(c) within 10 days after the delivery of the account statement required to be delivered under Rule 5.3.1.

(2) Subsection (1) does not apply in respect of the first report under Rule 5.3.3 – Report on Charges and other Compensation and the first report under Rule 5.3.4 – Performance Report for a client.

5.3.6 Exempt Market Dealers and Scholarship Plan Dealers – Client Reporting

Where a Member is also registered as:

(a) an exempt market dealer, and a client has purchased a security from the Member that is sold pursuant to an exemption under securities legislation; or

(b) as a scholarship plan dealer, and a client has invested in a scholarship plan through the Member,

the Member must comply with any additional client reporting requirements applicable to exempt market dealers and scholarship plan dealers, as set out under securities legislation.

5.4 TRADE CONFIRMATIONS

5.4.1 Delivery of Confirmations

Every Member who has acted as principal or agent in connection with any trade in a security shall promptly send by prepaid mail or deliver to the client a written confirmation of the transaction containing the information required under Rule 5.4.3.

The Member need not send to its client a written confirmation of a trade in a security of a mutual fund where the manager of the mutual fund sends the client a written confirmation containing the information required to be sent under Rule 5.4.3.

5.4.2 Automatic Plans

Where a transaction relates to a client's participation in an automatic plan that provides for systematic trading in the securities of a mutual fund on a monthly or more frequent basis, and the Member registers the mutual funds pursuant to the plan, the Member is required to send a trade confirmation for the initial transaction only.

5.4.3 Content

Every confirmation of trade sent to a client must set forth the following information:

(a) the quantity and description of the security purchased or sold;

(b) the price per security paid or received by the client;

(c) in the case of a purchase of a debt security, the security's annual yield;

(d) in the case of a purchase or sale of a debt security, either of the following:

(i) the total amount of any mark-up or mark-down, commission or other service charges the Member applied to the transaction;

(ii) the total amount of any commission charged to the client by the Member and, if the Member applied a mark-up or mark-down or any service charge other than a commission, the following notification or a notification that is substantially similar:

"Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you."

(e) the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction and the total amount of all charges in respect of the transaction;

(f) the name of the Member;

(g) whether or not the Member is acting as principal or agent;

(h) if acting as agent, the name of the person or company from or to or through whom the security was bought or sold;

(i) the date and name of the marketplace, if any, on which the transaction took place, or if applicable, a statement that the transaction took place on more than one marketplace or over more than one day;

(j) the type of the account through which the trade was effected;

(k) the name of the Approved Person, if any, involved in the transaction;

(l) the date of the trade;

(m) the settlement date of the transaction; and

(n) if applicable, that the security was issued by a related or connected issuer of the Member. This information is not required to be provided where the names of the Member and the mutual fund are sufficiently similar to indicate that they are affiliated or related.

5.5 ACCESS TO BOOKS AND RECORDS

All books, records, documentation and other information required to be kept and maintained by a Member or Approved Person shall be available for review by the Corporation and the Corporation shall be entitled to make copies thereof and retain them

for the purposes of carrying out its objects and responsibilities under the applicable securities legislation, the By-laws or the Rules.

5.6 RECORD RETENTION

Each Member shall retain copies of the records and documentation referred to in this Rule 5 for seven years from the date the record is created or such other time as may be prescribed by the Corporation.

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