



REQUEST FOR COMMENT

Notice and request for Comment – Adoption of New Brunswick Local Rule 31-501 *Registration Requirements*.

Introduction

On November 22, 2004, the New Brunswick Securities Commission (the “Commission”) approved publication for comment of Local Rule 31-501 *Registration Requirements* (“31-501”).

The text of 31-501 can be obtained from the following website:

English: [31-501](#)

French: [31-501](#)

Background

Local Rule 31-501 establishes the categories of registration, the proficiency requirements and the operational / compliance standards for offices operating in New Brunswick.

Substance and Purpose

31-501 is an all encompassing rule setting out registration requirements and it incorporates a number of instruments and notices which are in effect in other jurisdictions. The rule covers application for registration, proficiency requirements for individuals, working capital that must be maintained by a dealer, audit and financial reporting requirements, bonding and insurance requirements, record keeping and requirements for disclosure to clients.

Section 3.1 (3) restricts mutual fund dealers to trading in mutual funds and, where the requirements of 4.2(4) and 4.2(5) are met, trading in Labour Sponsored Investment Funds and exempt securities. When a mutual fund dealer trades in Labour Sponsored Investment Funds or exempt securities, the dealer will have to follow a series of stringent requirements involving due diligence, training and disclosure set out in subsections 4.2(4) and (5). These were previous requirements set out in a policy of the Securities Administration Branch.

Section 3.1(4) restricts scholarship plan dealers from selling exempt products.

Subsection 3.3(4) addresses financial columnists and prohibits them from recommending specific securities.

Subsection 4.2(4) is unique to New Brunswick and lists the precautions that a mutual fund dealer must take before trading in the securities of a labour sponsored investment fund.

Subsection 4.2(5) incorporates the provisions from the former Branch policy and lists the precautions that a mutual fund dealer must take before trading in exempt securities.

Section 4.3 sets out the educational requirements for a scholarship plan salesperson. The practice in the industry has been to have each company develop and administer its own course. While there is no self-regulatory organization for scholarship plan dealers, there is an association and it has developed an exam which the association also administers. This independence is preferable to the company-administered system and for that reason, the independent course and exam are the requirements that have been proposed in section 4.3. The "sales representative proficiency course" is defined as the course prepared and conducted by the Registered Education Savings Plan Dealers Association of Canada.

Anticipated Costs and Benefits

This single source rule will be more efficient and less time consuming for all stakeholders in the industry. 31-501 provides a single point of entry to everything necessary to the registration process, from application to categories, proficiencies and operating standards to be maintained.

Request for Comment

The Commission seeks comments on Local Rule 31-501.

How to Provide Your Comment

Comments are to be provided, in writing, by Tuesday, March 15, 2005 to:

Secretary
New Brunswick Securities Commission
133 Prince William Street, Suite 606
Saint John, NB E2L 2B5
Telephone: (506)- 658-3060
Fax: (506)-658-3059
Toll Free (866) 933-2222 (within NB only)
E-mail: information@nbsc-cvmnb.ca

If you are not sending your comments by e-mail, please send a diskette containing your comments (in DOS or Windows format, preferably Word).

We cannot keep submissions confidential because securities legislation in certain provinces requires that a summary of the written comments received during the comment period be published.

Questions

If you have any questions, please refer them to:

Andrew Nicholson
Director of Market Regulation
New Brunswick Securities Commission
Telephone: 506-658-3060
Toll Free (Within NB only) 1-866-933-2222
E-mail: andrew.nicholson@nbsc-cvmnb.ca

Rule 31-501

Registration Requirements

January 11, 2005

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RULE 31-501

REGISTRATION REQUIREMENTS

PART 1: DEFINITIONS AND INTERPRETATION

Definitions

1.1 (1) In this Rule

“**Act**” means the *Securities Act*, S.N.B. 2004, Chapter S-5.5 (*la loi*)

“**adjusted liabilities**” means total liabilities plus, where the accounts of the registrant are kept on a settlement date basis, any unrecorded purchase commitments minus, without duplication, the sum of

- (i) cash,
- (ii) money on deposit in a client’s trust account,
- (iii) the cash surrender value of life insurance if the registrant is the beneficiary,
- (iv) the market value of any securities that the registrant owns or has contracted to purchase and that have a margin rate of 5% or less,
- (v) interest accrued to the registrant in respect of the securities referred to in subparagraph (iv),
- (vi) the sale price of securities for which the registrant has a sales commitment to a financial institution,
- (vii) any debit balances with any financial institution, and
- (viii) the market value of securities that have a margin rate of 5% or less
 - A) included in non-segregated accounts of clients, partners, shareholders and dealers, or
 - B) held as collateral for secured loans receivable,

not exceeding the debit balance of the account or the secured loans receivable; (*passif régularisé*)

“**Branch Compliance Officer Course**” means the course prepared and conducted by the Institute of Canadian Bankers and so named on the effective date, every

predecessor to that course and every successor to that course that does not materially narrow the content of the significant subject matter of the course; (*cours de responsable de la conformité de la succursale*)

"Branch Managers Course" means the course prepared and conducted by the Canadian Securities Institute and so named on the effective date, every predecessor to that course and every successor to that course that does not materially narrow the content of the significant subject matter of the course; (*Cours à l'intention des directeurs de succursale*)

"Branch Manager Proficiency Course" means the course prepared and conducted by the Registered Education Savings Plan Dealers Association of Canada and so named on the effective date and every predecessor to that course and every successor to that course that does not materially narrow the content of the significant subject matter of the course; (*Cours de perfectionnement à l'intention des directeurs de succursale*)

"Canadian Investment Funds Course" means the course prepared and conducted by the Education Division of The Investment Funds Institute of Canada and so named on the effective date, every predecessor to that course and every successor to that course that does not materially narrow the content of the significant subject matter of the course; (*Cours des fonds d'investissement canadiens*)

"Canadian Investment Manager Program" means the program prepared and conducted by the Canadian Securities Institute and so named on the effective date, every predecessor to that program and every successor to that program that does not materially narrow the content of the significant subject matter of the program; (*Programme de gestionnaire de placements canadien*)

"Canadian Securities Course" means the course prepared and conducted by the Canadian Securities Institute and so named on the effective date, every predecessor to that course and every successor to that course that does not materially narrow the content of the significant subject matter of the course; (*Cours sur le commerce des valeurs mobilières au Canada*)

"Chartered Financial Analyst Examination Program" means the program prepared and conducted by the Association for Investment Management and Research and so named on the effective date, every predecessor to that program and every successor to that program that does not materially narrow the content of the significant subject matter of the program; (*Chartered Financial Analyst Examination Program*)

“Conduct and Practices Handbook Course” means the course prepared and conducted by the Canadian Securities Institute and so named on the effective date, every predecessor to that course and every successor to that course that does not materially narrow the content of the significant subject matter of the course; (*Cours relatif au Manuel sur les normes de conduite*)

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

“effective date” means the date on which this Rule comes into force; (*date de l’entrée en vigueur*)

“free credit balance” includes money received from, or held for the account of, clients by a registrant

(a) for investing in and paying for securities to be purchased by the client from the registrant where, at the time of payment by the client, the registrant

(i) does not own the securities, or

(ii) has not yet purchased the securities on behalf of the client,

(b) as proceeds of securities purchased from or sold to clients by the registrant for the account of clients if securities have been delivered to the registrant but payment to the client has not yet been made; (*solde créditeur disponible*)

“Hedge Funds Course” means the course prepared and conducted by the Canadian Securities Institute and named the “Canadian Securities Institute Continuing Education Hedge Funds Course” on the effective date, every predecessor to that course and every successor to that course that does not materially narrow the content of the significant subject matter of the course; (*Les fonds de couverture*)

“IDA” means the Investment Dealers Association of Canada; (*ACCOVAM*)

“Investment Funds in Canada Course” means the course prepared and conducted by the Institute of Canadian Bankers and so named on the effective date, every predecessor to that course and every successor to that course that does not materially narrow the content of the significant subject matter of the course; (*Cours sur les fonds d’investissement au Canada*)

“Joint Regulatory Financial Questionnaire and Report” means the interpretations, statements, schedules, notes and instructions approved and issued by the self

regulatory organizations as amended from time to time; (*Questionnaire et rapport financiers réglementaire uniformisés*)

“Labour Sponsored Investment Funds Course” means the course prepared and conducted by the Investment Funds Institute of Canada and so named on the effective date, every predecessor to that course and every successor to that course that does not materially narrow the content of the significant subject matter of the course; (*Cours sur les fonds d’investissement des travailleurs*)

“MFDA” means the Mutual Fund Dealers Association of Canada; (*ACCFM*)

“Mutual Fund Branch Managers Course” means the course prepared and conducted by the Education Division of The Investment Funds Institute of Canada and named the "Branch Managers Course" on the effective date, every predecessor to that course and every successor to that course that does not materially narrow the content of the significant subject matter of the course; (*Cours sur les fonds communs de placement à l’intention des directeurs de succursale*)

“Mutual Fund Officers, Partners and Directors Course” means the course prepared and conducted by the Education Division of The Investment Funds Institute of Canada and named the "Officers, Partners and Directors Course" on the effective date, every predecessor to that course and every successor to that course that does not materially narrow the content of the significant subject matter of the course; (*Cours sur les fonds communs de placement à l’intention des dirigeants, des associés et des administrateurs*)

“Partners, Directors and Senior Officers Qualifying Examination” means the examination prepared and conducted by the Canadian Securities Institute and so named on the effective date, every predecessor to that examination and every successor to that examination that does not materially narrow the content of the significant subject matter of the examination; (*Cours à l’intention des associés, administrateurs et membres de la direction*)

“registered firm” means a person that is registered as a dealer or adviser; (*société inscrite*)

“registrant” means a person registered or required to be registered under the Act; (*personne inscrite*)

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

“Sales Representative Proficiency Course” means the course prepared and conducted by the Registered Education Savings Plan Dealers Association of Canada so named on the effective date, every predecessor to that course and every successor to that course that does not materially narrow the content of the significant subject matter of the course; (Cours de perfectionnement à l’intention des représentants des vents)

“self-regulatory organization” means The Investment Dealers Association of Canada and the Mutual Fund Dealers Association of Canada; (*organisme d’autoréglementation*)

Market value of unlisted securities

1.2(1) Subject to subsections (2), (3) and (4), the market value of a security not listed and posted for trading on an exchange must be determined by assigning a reasonable value on the basis of values shown on published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date.

1.2(2) A registrant may vary a value from that shown on published market reports or inter-dealer quotation sheets if, in light of all the circumstances, some other value would be more appropriate.

1.2(3) The Executive Director may require that a different value from that determined under subsections (1) or (2) be assigned if, in light of all the circumstances, some other value would be more appropriate.

1.2(4) If no published market report or inter-dealer quotation sheet exists with respect to the security, the security must be assigned a market value of zero unless, in the opinion of the Executive Director, assigning a higher market value would not be contrary to the public interest.

PART 2: APPLICATION FOR REGISTRATION

Application

2.1 A person must apply for registration in accordance with the requirements of this Rule and the requirements set out in Multilateral Instrument 33-109 *Registration Information Requirements*.

Full-time registration as salesperson

2.2(1) Subject to subsection (2), no individual shall be granted registration or renewal of registration as a salesperson unless the individual is employed full-time as a salesperson by a registered dealer.

2.2(2) Subsection (1) does not apply to an individual if

- (a) the individual is a part-time student enrolled in a post-secondary business, commercial or financial course,
- (b) the individual is a full-time student enrolled in a business, commercial or financial course and satisfies the Executive Director that the individual has a present intention of continuing a career in the investment business,
- (c) the individual is otherwise employed for six months or less during the calendar year and while so employed is not employed as a salesperson,
- (d) the individual is carrying on a hobby, recreational or cultural activity which, in the opinion of the Executive Director, will not interfere with the individual's duties and responsibilities as a salesperson,
- (e) in the case of a salesperson employed by a mutual fund dealer or a scholarship plan dealer, the area in which the individual is to be employed is, in the opinion of the Executive Director, so remote and sparsely populated that full-time employment as a salesperson is not economically feasible,
- (f) the individual holds a licence as an insurance agent under the *Insurance Act* (New Brunswick) and is in the employ or under the sponsorship of the registered dealer who proposes to employ that individual,
- (g) with the written consent of the registered dealer and the Executive Director, the individual is employed outside normal working hours and there is no conflict of interest arising from the individual's duties as a salesperson and the individual's outside employment, or
- (h) the individual is carrying on an activity, which in the opinion of the Executive Director and the registered dealer, will not, in the circumstances, interfere with the individual's duties and responsibility as a salesperson and there is no conflict of interest arising from the individual's duties as a salesperson and the individual's outside activity.

PART 3: CATEGORIES OF REGISTRATION

Dealer categories

3.1 (1) A person that is required to be registered as a dealer pursuant to securities legislation must be registered in one of the following categories:

- (a) investment dealer;
- (b) mutual fund dealer; or
- (c) scholarship plan dealer.

3.1(2) An investment dealer is an unrestricted dealer in securities and may engage in the business of trading securities in the capacity of an agent or principal.

3.1(3) A mutual fund dealer shall only trade in

- (a) securities of a mutual fund for which a receipt for a prospectus has been issued,
- (b) Labour Sponsored Investment Funds if the requirements of Section 4.2(4) are met, or
- (c) exempt securities if the requirements of section 4.2(5) are met.

3.1(4) A scholarship plan dealer shall only trade in securities of a scholarship or educational plan or trust.

Individual categories – dealers

3.2 Every individual employed by a registered dealer to trade in securities must be registered in at least one of the following categories:

- (a) salesperson;
- (b) officer (trading);
- (c) partner (trading); or
- (d) compliance officer.

Adviser category

3.3(1) A person that is required to be registered as an adviser pursuant to securities legislation must be registered in at least one of the following categories:

- (a) portfolio manager and investment counsel;
- (b) portfolio manager and investment counsel and mutual fund dealer; or
- (c) securities adviser.

3.3(2) A portfolio manager and investment counsel is a person holding themselves out as engaging in the business of advising others as to the investing in or the buying or selling of specific securities, or that is primarily engaged in giving continuous advice as to the investment of funds or managing an investment portfolio on the basis of the particular objectives of each client.

3.3(3) A portfolio manager and investment counsel and mutual fund dealer is a person engaged in the activity described in subsection (2) and in the distribution of mutual funds.

3.3(4) A securities adviser is a person holding themselves out as engaging in the business of advising others either through direct advice or through publications or writings, as to the investing in or the buying or selling of specific securities, not purporting to be tailored to the needs of specific clients.

Individual categories – adviser

3.4 Every individual employed by a registered adviser who engages in the business of advising others with respect to investing in or the buying or selling of securities must be registered in at least one of the following categories:

- (a) representative;
- (b) officer (advising);
- (c) partner (advising);
- (d) junior officer (advising);
- (e) compliance officer;
- (f) sole proprietor (advising) [securities adviser category only].

PART 4: PROFICIENCY

Investment Dealer

4.1(1) An individual shall not be granted registration as a salesperson of an investment dealer unless the individual has successfully completed:

- (a) the Canadian Securities Course, and
- (b) one of

- (i) the Conduct and Practices Handbook Course, or
- (ii) the Partners, Directors, and Senior Officers Qualifying Examination.

4.1(2) An individual shall not be granted registration as a trading officer, trading partner or compliance officer of an investment dealer unless the individual has successfully completed:

- (a) the Canadian Securities Course, and
- (b) the Partners, Directors, and Senior Officers Qualifying Examination.

4.1(3) An individual shall not be granted registration as a salesperson restricted to selling mutual funds for an investment dealer unless the individual has

- (a) been granted registration previously as a salesperson, partner or officer of a mutual fund dealer; or
- (b) successfully completed at least one of the following:
 - (i) the Canadian Securities Course,
 - (ii) the Canadian Investment Funds Course, or
 - (iii) the Investment Funds in Canada Course.

4.1(4) The registration of a salesperson under subsection (3) expires on a date 270 days after the date that the registration was granted, despite any renewals in the interim, unless the salesperson has successfully completed:

- (a) the Canadian Securities Course, and
- (b) one of:
 - (i) the Conduct and Practices Handbook Course, or
 - (ii) the Partners, Directors, and Senior Officers Qualifying Examination, and
- (c) has filed an application for a change of category.

4.1(5) An individual shall not be designated under subsection 9.6(1) as a branch manager for an investment dealer unless the individual has successfully completed:

- (a) the Canadian Securities Course; and

(b) one of:

- (i) the Partners, Directors, and Senior Officers Qualifying Examination, or
- (ii) the Branch Managers Course and the Conduct and Practices Handbook Course.

Mutual Fund Dealer

4.2(1) An individual shall not be granted registration as a salesperson of a mutual fund dealer unless the individual has successfully completed one of:

- (a) the Canadian Securities Course,
- (b) the Canadian Investment Funds Course, or
- (c) the Investment Funds in Canada Course.

4.2(2) An individual shall not be granted registration as a trading officer, trading partner, or the compliance officer of a mutual fund dealer unless the individual has successfully completed:

(a) one of:

- (i) the Canadian Securities Course,
- (ii) the Canadian Investment Funds Course, or
- (iii) the Investment Funds in Canada Course, and

(b) either;

- (i) the Partners, Directors, and Senior Officers Qualifying Examination, or
- (ii) the Mutual Fund Officers', Partners' and Directors Course.

4.2(3) An individual shall not be designated under subsection 9.6(1) as branch manager for a mutual fund dealer unless the individual has successfully completed:

(a) one of:

- (i) the Canadian Securities Course,
- (ii) the Canadian Investment Funds Course, or
- (iii) the Investment Funds in Canada Course, and

(b) one of:

- (i) the Branch Managers Course,
- (ii) the Mutual Fund Branch Managers Course,
- (iii) the Branch Compliance Officer Course,
- (iv) the Partners, Directors, and Senior Officers Qualifying Examination, or
- (v) the Mutual Fund Officers', Partners' and Directors' Course.

4.2(4) A mutual fund dealer shall not trade in the securities of a labour sponsored investment fund unless:

- (a) the dealer has conducted due diligence on the security;
- (b) the dealer has assessed the merits of the security to be traded;
- (c) the trade is made through one of its registered salespersons, trading officers or trading partners who in addition to the requirements of subsections (1) and (2) has passed the Labour Sponsored Investment Funds Course, or the Canadian Securities Course, and
- (d) the branch manager supervising the salesperson, trading officer or trading partner trading in labour sponsored investment funds has passed the Labour Sponsored Investment Funds Course, or the Canadian Securities Course.

4.2(5) A mutual fund dealer shall not trade in exempt securities unless:

- (a) the dealer has conducted due diligence on the security;
- (b) the dealer has assessed the merits of the security to be traded;
- (c) the trade is recorded on the books and records of the dealer;
- (d) the registered salesperson, trading officer or trading partner who proposes to trade an exempt security must ensure that the proposed purchaser of the security understands
 - (i) the main attributes of the security and the risks involved,
 - (ii) what the market for the security is expected to be,
 - (iii) the liquidity of the security,

- (iv) if an offering memorandum is used, that the offering memorandum is not a prospectus,
 - (v) any resale restrictions that apply to the security,
 - (vi) the dollar amount of the compensation that the salesperson will receive from the trade and its percentage of the total purchase price, and
 - (vii) the protections, rights and remedies provided by the Act including statutory rights of action for rescission and damages;
- (e) the trade is made through one of its registered salespersons, trading officers or trading partners who has passed the Canadian Securities Course;
 - (f) the branch manager supervising the salesperson trading in exempt securities has passed the Canadian Securities Course;
 - (g) where the exempt security is a Hedge Fund, the registered salesperson, trading officer or trading partner executing the trade has passed the Hedge Funds Course;
 - (h) where the exempt security is a note guaranteed by any government in Canada or any government agency or any bank to which the *Bank Act* applies, the registered salesperson, trading officer or trading partner executing the trade needs no additional proficiency.

Scholarship Plan Dealer

4.3(1) An individual shall not be granted registration as a salesperson of a scholarship plan dealer unless the individual

- (a) has been previously registered as a salesperson; or
- (b) has successfully completed the Sales Representative Proficiency Course, or the Branch Manager Proficiency Course.

4.3(2) An individual shall not be granted registration as a trading officer, trading partner or the compliance officer of a scholarship plan dealer unless the individual has been previously registered as such or has successfully completed:

- (a) the Sales Representative Proficiency Course, or the Branch Manager Proficiency Course, and
- (b) one of:

- (i) the Partners, Directors, and Senior Officers Qualifying Examination, or
- (ii) the Mutual Fund Officers', Partners' and Directors' Course.

4.3(3) An individual shall not be designated as branch manager for a scholarship plan dealer unless the individual has successfully completed:

- (a) the Sales Representative Proficiency Course; and
- (b) at least one of:
 - (i) the Branch Manager Proficiency Course,
 - (ii) the Branch Managers Course,
 - (iii) the Mutual Fund Branch Managers Course,
 - (iv) the Branch Compliance Officer Course,
 - (v) the Partners, Directors, and Senior Officers Qualifying Examination, or
 - (vi) the Mutual Fund Officers', Partners' and Directors' Course.

Adviser

4.4(1) An individual shall not be granted registration as a representative, officer (advising), partner (advising) or compliance officer for a registered portfolio manager and investment council unless successfully completing one of:

- (a) the Canadian Investment Manager Program and Level 1 of the Chartered Financial Analyst Program and been employed for five years performing research involving the financial analysis of investments, with three of the five years having been under the supervision of a registered adviser having responsibility on a discretionary basis for the arrangement or supervision of investment portfolios having an aggregate value of not less than \$1,000,000;
- (b) the Chartered Financial Analyst Program and been employed for five years performing research involving the financial analysis of investments, with three of the five years having been under the supervision of a registered adviser having responsibility on a discretionary basis for the arrangement or supervision of investment portfolios having an aggregate value of not less than \$1,000,000;

- (c) the individual has three years experience as a junior officer (advising), responsible for the direct administration on a discretionary basis of investment portfolios having an aggregate value of not less than \$1,000,000; or
- (d) the individual has three years experience as a salesperson or a research analyst of an investment dealer, and two years experience as a junior officer responsible for the direct administration on a discretionary basis of investment portfolios having an aggregate value of not less than \$1,000,000.

4.4(2) An individual shall not be granted registration as a junior officer (advising) for a registered portfolio manager and investment counsel unless the individual has successfully completed one of:

- (a) the Canadian Investment Manager Program and the first year of the Chartered Financial Analyst Program and been employed for two years
 - (i) performing research involving the financial analysis of investments, or
 - (ii) as a registered salesperson of an investment dealer, or
- (b) the Chartered Financial Analyst Program and been employed for two years
 - (i) performing research involving the financial analysis of investments, or
 - (ii) as a registered salesperson of an investment dealer.

4.4(3) An individual who is registered as a junior officer (advising) shall not give advice unless the advice has been approved by an individual registered as a representative, officer (advising), or partner (advising) employed at the same location of the registered firm that employs the individual.

4.4(4) An individual shall not be designated as a branch manager of a portfolio manager and investment counsel unless the individual has been registered as a representative, officer (advising), partner (advising), or compliance officer.

4.4(5) An individual shall not be granted registration as a representative, officer (advising), partner (advising), sole proprietor (advising), or compliance officer for a securities adviser unless the individual

- (a) has successfully completed the Canadian Investment Manager Program and Level 1 of the Chartered Financial Analyst Program, and
- (b) has been performing research involving the financial analysis of investments for at least two years under the supervision of a registered adviser.

4.4(6) An individual shall not be designated as a branch manager of a securities adviser unless the individual has been registered as a representative, officer (advising), partner (advising), sole proprietor (advising), or compliance officer.

Time Limits on Completion of Courses and Proficiency

4.5(1) An applicant for registration must have successfully completed the required proficiency for the category of registration being sought within the three year period immediately prior to the date of the application, unless the applicant is registered in an equivalent category in another jurisdiction.

4.5(2) Where an applicant is seeking reinstatement of a registration in New Brunswick, the Executive Director will consider a previous course or proficiency if the application is made within three years of the date of the suspension or termination of that registration.

4.5(3) Where an applicant was previously registered in another jurisdiction of Canada, the Executive Director will consider a previous course or proficiency if the application is made within three years of the date of the suspension or termination of the registration in that jurisdiction.

Alternative Proficiencies – General

4.6 Despite the requirements of this Part, the Executive Director may

- (a) accept alternative proficiencies for any category of registration, or
- (b) grant registration to any applicant to whom registration has been granted by their principal regulator, as that term is defined in the proposed National Instrument 31-101 *National Registration System*.

PART 5: SELF REGULATORY ORGANIZATION REQUIREMENTS

Membership in IDA

5.1 An investment dealer must be a member of the IDA.

Membership in MFDA

5.2(1) Subject to subsection (2), a mutual fund dealer must be a member of the MFDA.

5.2(2) Subsection (1) does not apply to a Mutual Fund Dealer registered as a Portfolio Manager and Investment Counsel that has obtained an exemption from the Executive Director.

PART 6: AUDIT AND FINANCIAL REQUIREMENTS

Appointment of auditor

6.1 A registrant must appoint an auditor that is authorized by the laws of a jurisdiction of Canada to sign an auditor's report that meets the professional standards of that jurisdiction.

Direction to auditor

6.2(1) Every registrant must issue a direction to its auditor instructing the auditor to conduct any audit requested by the Executive Director during its registration and must deliver a copy of the direction to the Executive Director

(a) at the time the application for registration is made, and

(b) immediately after the registrant changes its auditor.

6.2(2) If the Executive Director requests an auditor to conduct an audit of the financial affairs of a registrant in accordance with a direction referred to in subsection (1), all fees related to the audit must be paid by the registrant.

Financial statements

6.3 Every registrant must deliver to the Executive Director within 90 days after the end of its financial year a copy of its annual financial statements for that year.

Audit of financial statements and auditor's report

6.4(1) The annual financial statements delivered to the Executive Director in accordance with section 6.3 [*Financial Statements*] must be

(a) audited in accordance with National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Foreign Currency*, and

(b) accompanied by an auditor's report prepared in accordance with National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Foreign Currency*.

6.4(2) No registrant shall withhold, destroy or conceal any information or documents or otherwise fail to cooperate with a reasonable request made by an auditor of a registrant in the course of an audit.

Content of financial statements

6.5 The annual financial statements referred to in section 6.3 [*Financial statements*] must include

- (a) an income statement, a statement of surplus and a statement of changes in financial position for the financial year, and
- (b) a balance sheet as at the end of the financial year, signed by one director of the registrant.

Certification of financial statements

6.6 The annual financial statements and regulatory filings delivered to the Executive Director must be certified by the registrant or an officer or partner of the registrant.

Change of auditor

6.7 A registrant must provide written notice to the Executive Director within 10 days if the registrant changes its auditor.

PART 7: Capital Requirements

Capital requirements- investment dealer

7.1(1) Every registered investment dealer must continuously maintain net free capital calculated in accordance with the Joint Regulatory Financial Questionnaire and Report.

7.1(2) On application, if satisfied that it is in the public interest and subject to terms and conditions, the Executive Director may require that the net free capital calculated in accordance with the Joint Regulatory Financial Questionnaire and Report include capital requirements on adjusted liabilities to an amount other than the minimum amount set out in that Questionnaire and Report.

Capital requirements - other dealers

7.2(1) Every mutual fund dealer that is a member of the MFDA must maintain working capital as required by the MFDA.

7.2(2) Every mutual fund dealer that is not a member of the MFDA and every scholarship plan dealer must continuously maintain working capital, calculated in accordance with generally accepted accounting principles, that is equal to or greater than the maximum amount, if any, that is deductible under any bond or insurance coverage required under section 8.2 [*bonding or insurance - other dealers*] plus the greater of:

- (a) \$25,000, or
- (b) an amount equal to the sum of
 - (i) 10% of the first \$2,500,000 of adjusted liabilities,
 - (ii) 8% of the next \$2,500,000 of adjusted liabilities,
 - (iii) 7% of the next \$2,500,000 of adjusted liabilities,
 - (iv) 6% of the next \$2,500,000 of adjusted liabilities,
 - (v) 5% of adjusted liabilities in excess of \$10,000,000.

Capital requirements – Adviser

7.3(1) Every registered adviser who exercises discretionary control over clients' funds or securities must continuously maintain working capital calculated in accordance with generally accepted accounting principles, that is equal to or greater than the maximum amount, if any, that is deductible under any bond or insurance coverage required under section 8.3 [*bonding or insurance - adviser*] plus \$25,000.

7.3(2) Every registered adviser who does not exercise discretionary control over clients' funds or securities must continuously maintain working capital calculated in accordance with generally accepted accounting principles, that is equal to or greater than the maximum amount, if any, that is deductible under any bond or insurance coverage required under section 8.3 [*bonding or insurance - adviser*] plus \$5,000.

7.3(3) A registered adviser may be required to continuously maintain working capital in an amount greater than that required under subsections (1) and (2) if the Executive Director determines it necessary.

Reporting on capital

- 7.4 Every registrant required to maintain the capital levels set out in this section must
- (a) promptly report to the Executive Director every failure to maintain the required level, and
 - (b) advise the Executive Director in writing of the steps being taken to restore the capital levels.

Subordination agreement

7.5 At the request of the Executive Director, a registrant must enter into a subordination agreement in a form acceptable to the Executive Director.

PART 8: BONDING OR INSURANCE REQUIREMENTS

Bonding or insurance - investment dealer

8.1 Every investment dealer must maintain bonding or insurance, by means of a financial institution bond, on terms acceptable to the IDA.

Bonding or insurance - other dealers

8.2(1) Every mutual fund dealer that is a member of the MFDA must maintain bonding or insurance by means of a financial institution bond, on terms acceptable to the MFDA.

8.2(2) Every mutual fund dealer that is not a member of the MFDA and every scholarship plan dealer must maintain bonding or insurance by means of a financial institution bond in an amount of not less than \$200,000, or in a larger amount if indicated by a resolution made pursuant to section 8.5 [*Certified Resolution*]

Bonding or insurance – adviser

8.3(1) Every firm registered as an adviser under section 3.3 must maintain bonding or insurance by means of a financial institution bond, on terms acceptable to the Executive Director

- (a) in an amount not less than \$200,000 for registered advisers who have custody of their clients' securities;
- (b) in an amount not less than \$10,000 for registered advisers who do not have custody of their clients' securities; or
- (c) in a larger amount if indicated by a resolution made pursuant to section 8.5 [*Certified Resolution*].

8.3(2) A registered adviser must not receive, hold or dispose of any free credit balances or securities on behalf of any person.

Filing of Bonding or Insurance

8.4 Every registered firm will file annually with the Executive Director proof of their bonding or insurance coverage within 30 days of the expiry of the previously filed proof of coverage.

Certified resolution

8.5(1) Every person applying for registration or renewal of registration as a registered dealer or registered adviser must deliver to the Executive Director, with the application, a certified copy of a resolution of its directors stating that

- (a) full consideration has been given to the amount of bonding or insurance necessary to cover insurable risks in the business of the applicant, and
- (b) the minimum amount of coverage required by this Part
 - (i) is sufficient, or
 - (ii) is not sufficient but that an indicated amount of coverage would be sufficient.

8.5(2) The Executive Director may refuse registration or renewal of registration if, in the opinion of the Executive Director, the amount stated in a resolution made under subsection 8.3(1) is not sufficient.

Exemption from bonding

8.6 If the Executive Director is satisfied that it would not be prejudicial to the public interest, the Executive Director may increase or reduce the amount of coverage or determine that no coverage is required for a registrant under this Part.

Notice of change

8.7 Every registrant must immediately notify the Executive Director in writing of any change in, claim made under, or cancellation of any bond or insurance policy maintained pursuant to the requirements of this Part.

PART 9: NEW ACCOUNTS AND SUPERVISION

Exemptions for SRO members

9.1 An investment dealer or mutual fund dealer is exempt from complying with the requirements of this Part if the investment dealer or mutual fund dealer complies with every by-law, rule, regulation, policy, procedure, interpretation or practice of the IDA or the MFDA, as the case may be, dealing with the same subject matter.

Dealing with clients

9.2 A registered firm must establish, supervise and enforce written procedures for dealing with clients that

- (a) conform to prudent business practice,
- (b) enable the registered firm to serve its clients adequately, and
- (c) safeguard or protect
 - (i) free credit balances, and
 - (ii) securities held on behalf of clients.

Supervisory terms

9.3 A registered firm must supervise each of its registered individuals in accordance with supervision requirements set out in the Act and in accordance with the terms or conditions imposed by the Executive Director.

Registration of compliance officer

9.4(1) A registered firm must designate and register a partner or officer of the registered firm as the compliance officer.

9.4(2) The compliance officer designated and registered under subsection (1) is responsible for

- (a) discharging the obligations of the registered firm under the Act,
- (b) approving the opening of each new account,
- (c) supervising trades made for or with each client or supervising advice given to each client, and
- (d) supervising the branch manager's conduct of the activities specified in section 9.6 [*Branch manager*]

9.4(3) A compliance officer designated and registered under subsection (1) may delegate supervisory functions to an individual who

- (a) is registered in a category of registration specified in Part 3,
- (b) meets the proficiency requirements under Part 4, as a trading or advising officer, and
- (c) reports to the compliance officer.

Notice of designated persons

9.5 An applicant for registration or reinstatement of registration as a registered firm must deliver to the Executive Director, with the application, the name of the person proposed to be designated under section 9.4 [*Designation of compliance officer*]

Branch manager

9.6(1) Where a registered firm operates a branch office or sub-branch office located in New Brunswick, the registered firm must designate a salesperson, representative, officer or partner as the branch manager for the branch or sub-branch to supervise the registrant providing advice to or trading on behalf of each client.

9.6(2) The Branch manager is responsible for

- (a) approving every new account opened;
- (b) supervising trades made for or with each client; and
- (c) supervising advice provided to each client.

9.6(3) A branch manager must report to the compliance officer designated under section 9.4 [*Registration of compliance officer*].

9.6(4) A registered firm must designate, for each branch location, an alternative branch manager who meets the proficiency requirements for a branch manager as set out for the firm's registration category in Part 4.

Branch offices and sub-branches

9.7(1) A branch office means any work location where four or more registrants carry on business or maintain client files.

9.7(2) A sub-branch means any work location where fewer than four registrants carry on business or maintain client files.

9.7(3) All branch offices must be supervised by an on-site branch manager.

9.7(4) A sub-branch does not require the supervision of an on-site branch manager, providing the manager of a branch office located in New Brunswick, in the same geographic region as the sub-branch, has agreed to supervise the registrants of the sub-branch and is designated by the registered firm as branch manager on National Registration Database for that sub-branch.

9.7(5) Where a registrant maintains business records or meets with clients on a regular basis in the registrant's home, then the residence is considered a business premises and must be registered as a sub-branch.

9.7(6) The registrant must ensure that a sub-branch located in the residence is separate and apart from the general living area and clearly identified as the business premises.

9.7(7) The branch manager must ensure that a registrant locating a sub-branch in the residence is aware

(a) of the requirement of subsection (6) and

(b) that under paragraphs 163(3)(a) and 172(3)(a) of the Act, a compliance officer and investigator respectively are authorized to enter the premises of a registered firm.

9.7(8) Each branch or sub-branch must display clear signage to identify the registered firm.

Duty of good faith

9.8(1) A registered firm must deal fairly, honestly and in good faith with clients.

9.8(2) A salesperson, officer or partner of a registered dealer or a representative, officer or partner of a registered adviser must deal fairly, honestly and in good faith with clients.

Know your client/suitability

9.9(1) A registrant must make those enquiries that

(a) will enable the registrant to establish

(i) the identity and the creditworthiness of each client, and

(ii) the reputation of the client if information known to the registrant causes doubt as to whether the client is of good reputation,

and

(b) are necessary to determine

(i) the general investment needs and objectives of the client, and

(ii) the suitability of a proposed purchase or sale of a security for the client.

9.9(2) Despite subsection (1)(a), a registrant is not required to make enquiries as to the creditworthiness of a client if the registrant is not financing the acquisition of securities by the client.

9.9(3) A registrant must ensure that the recommendation made for an account of a client is

(a) appropriate for the client, and

(b) in keeping with the client's investment objectives.

9.9(4) If a client places an order for a trade in a security, and the registrant determines that he or she cannot recommend the trade, the registrant must advise the client of that recommendation.

9.9(5) Subsections (1)(b), (3) and (4) do not apply to a registered dealer if the dealer executes a trade on the instructions of a registered adviser, another registered dealer or a Canadian financial institution.

Managed accounts

9.10(1) For each account with a registered dealer opened and traded by a registered adviser on behalf of a client, the registered dealer must determine that the registered adviser is creditworthy, but the registered dealer does not have any duty of enquiry under section 9.9(1)(a) [*Know your client/suitability*] if the registered adviser

(a) executes the order in the registered adviser's name, or

(b) identifies its client by means of a code or symbols or guarantees the account.

9.10(2) For each account with a registered dealer opened and traded by a registered adviser on behalf of a client with no agreement that payment of the account is guaranteed by the adviser, the registered dealer that executes the order in the name of the client, does not have any duty of enquiry under section 9.9(1)(a) [*Know your client/suitability*] but must obtain

(a) full information concerning the client to enable the registered dealer to establish the identity and the creditworthiness of the client, or

(b) from the adviser

(i) a letter confirming the familiarity of the adviser with applicable securities legislation, requirements of recognized self-regulatory organizations and requirements of the adviser for account supervision, and

- (ii) a written undertaking to make the enquiries contemplated by those requirements and to advise, if known, whether the client is an insider of a reporting issuer or an employee, director, officer or partner of a person engaged in the securities business and the details of the relationship.

9.10(3) A registered adviser must, for each account with a registered dealer opened and traded by the registered adviser on behalf of a client, ask the client if the client is

- (a) an insider of a reporting issuer, or
- (b) an employee, director, officer or partner of a person engaged in the securities business and the details of the relationship.

General duties

9.11 An individual registered in a category referred to in sections 3.2 [*Individual categories - dealers*] and 3.4 [*Individual categories - adviser*] must not act on behalf of a registered dealer or registered adviser in a transaction of the registered dealer or registered adviser unless they comply with Part 13 [*Conflicts*] and NI 33-105 *Underwriting Conflicts*.

PART 10: RECORD KEEPING

Non-application of record-keeping requirements

10.1 This Part does not apply to an investment dealer that is exempt pursuant to section 3.7 [*Investment dealer acting as portfolio manager*] of Local Rule 45-501 *Prospectus and Registration Exemptions Rule*.

Duty to maintain

10.2(1) In addition to the requirements of this Part, any registered firm that is a member of a self regulatory organization must abide by the rules and bylaws of the self regulatory organization.

10.2(2) Every registrant must maintain books and records necessary to record properly its business transactions and financial affairs and the transactions that it executes on behalf of others that, in the opinion of the Executive Director, are appropriate to its business, including, without limitation:

- (a) blotters or other records of original entry, 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,
 - (v) the account for which each transaction was effected,
 - (vi) the name of the securities,
 - (vii) the class or designation of the securities,
 - (viii) the number or value of the securities,
 - (ix) the unit and aggregate purchase or sale price, if any,
 - (x) the trade date, and
 - (xi) 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) ledgers or other records maintained in detail reflecting all the assets and liabilities, income and expense and capital accounts;
- (c) ledger accounts or other records itemizing separately for each cash and margin account of every client, all purchases, sales, receipts and deliveries of securities and commodities for the account and all other debits and credits to the account;
- (d) ledgers or other records reflecting
- (i) securities in transfer,
 - (ii) dividends and interest received,
 - (iii) securities borrowed and securities loaned,
 - (iv) money borrowed and money loaned, together with a record of the collateral for the money borrowed or loaned and any substitutions in the collateral, and
 - (v) securities which the registrant has failed to receive and failed to deliver;
- (e) a securities record or ledger showing separately for each security as of the trade date or settlement date all long and short positions, including

- (i) securities in safekeeping, carried for the registrant's account or for the account of clients,
 - (ii) the location of all securities long and the position offsetting securities sold short, and
 - (iii) the name or designation of the account in which each position is carried;
- (f) an adequate record of each order and of any other instruction, which may be a copy of the order or instruction, given or received for the purchase or sale of securities, whether executed or unexecuted, showing
- (i) the terms and conditions of the order or instruction and of any modification or cancellation of the order or instructions,
 - (ii) the account to which the order or instruction relates,
 - (iii) the name, sales number or designation of the individual placing the order or instruction, if the order or instruction is placed by an individual other than
 - A) the person in whose name the account is operated, or
 - B) an individual duly authorized to place orders or instructions on behalf of a client that is a company,
 - (iv) the time of the entry of the order or instruction, and where the order is entered pursuant to the exercise of a discretionary power of a registrant or any employee of a registrant, a statement to that effect,
 - (v) the price at which the order or instruction was executed,
 - (vi) to the extent feasible, the time of execution or cancellation;
- (g) copies of confirmations or other records of all purchases and sales of securities required under Part 12 [*Disclosure to Clients*] and copies of notices of all other debits and credits of securities, cash and other items for the accounts of clients;
- (h) subject to Part 9 [*New accounts and supervision*], a client record in respect of each cash and margin account containing
- (i) the name and address of the beneficial owner and the guarantor, if any, of the account,

- (ii) if trading instructions are accepted from a person other than the client, written authorization or ratification from the client naming the person,
 - (iii) if the account is a joint account or an account of a company, a properly executed margin agreement containing the name of the person or persons authorized to transact business for the account, or
 - (iv) if the account is only a margin account, a properly executed margin agreement containing the signature of the owner and the guarantor, if any, and the additional information obtained pursuant to the requirements of Part 9 [*New accounts and supervision*];
- (i) a record of all puts, calls, spreads, straddles and other options in which the registrant has any direct or indirect interest or that the registrant has granted or guaranteed, including, without limitation, the name of the security and the underlying security and the number of underlying securities to which the put, call, spread, straddle or other option relates;
 - (j) a record of the proof of balances of all ledger accounts in the form of trial balances and a record of the calculation of minimum free capital, adjusted liabilities and risk adjusted capital required, prepared for each month within 45 days of the end of that month.

10.2(3) All records may be kept by means of mechanical, electronic or other devices if these methods of record keeping are not prohibited under other applicable legislation and the registrant

- (a) takes adequate precautions, appropriate to the means used, to guard against the risk of falsification of the information recorded, and
- (b) provides a means for making the information available in an accurate and intelligible form within a reasonable time to any person lawfully entitled to examine the records.

10.2(4) Unless otherwise required by applicable legislation to be maintained for a longer period of time

- (a) records relating to unexecuted orders or instructions as prescribed in subsection (2)(f), and confirmations prescribed in subsection (2)(g), must be maintained for a period of at least 2 years, and

- (b) records relating to executed orders or instructions as prescribed in subsection (2)(f) must be maintained for a period of at least 5 years, and for the first 2 years of that period, must be retained in a readily accessible location.

10.2(5) Every registrant must maintain its books and records at a location in the jurisdiction in which its head office is located.

10.2(6) Notwithstanding subsection (5), the registrant must maintain, in New Brunswick books and records as are necessary to properly record its business transactions and financial affairs conducted through any branch or sub-branch located in New Brunswick.

PART 11: CLIENT ASSETS AND ACCOUNTS

Securities subject to safekeeping agreement

11.1(1) Securities that are held by a registrant for a client pursuant to a written safekeeping agreement and that are unencumbered must be

- (a) segregated from all other securities, and
- (b) identified as being held in safekeeping for a client in the registrant's security position record, client's ledger and statement of account.

11.1(2) Securities held under subsection (1) may be released only on an instruction from the client and not solely because the client has become indebted to the registrant.

Securities not subject to safekeeping agreement

11.2(1) Securities held by a registrant for a client that are unencumbered and that are either fully paid for or are excess margin securities but that are not held pursuant to a written safekeeping agreement must be

- (a) segregated and identified as being held in trust for the client, and
- (b) described as being held in segregation on the registrant's security position record, client's ledger and statement of account.

11.2(2) Segregated securities may be used by the registrant, by sale or loan, whenever a client becomes indebted to a registrant but only to the extent reasonably necessary to cover the indebtedness.

11.2(3) Securities described in subsection (1) may be segregated in bulk.

Free credit balances

11.3 Where the Executive Director is not satisfied with a registrant's bonding or insurance arrangements, the registrant must

- (a) promptly upon receipt, deposit a client's free credit balance in a client's trust account, and
- (b) properly identify the funds as belonging to the client.

Subscriptions pending investment

11.4 Subscriptions or prepayments held, pending investment by mutual fund dealers or advisers, must be segregated in a trust account and not commingled with the assets of the mutual fund dealer or adviser.

Reduction of debt balances

11.5(1) If a registrant maintains two or more accounts, one of which is a commodity futures account that contains a debit balance of more than \$ 5,000, the registrant must transfer from any account containing a free credit balance as much of the free credit balance as is necessary to eliminate, or reduce to the greatest extent possible, the debit balance in the commodity futures account.

11.5(2) Subsection (1) does not apply to a registrant in respect of a client's securities and commodity futures accounts if the client has directed the registrant in writing, or orally if subsequently confirmed in writing

- (a) to transfer an amount that is less than the amount otherwise required to be transferred, or
- (b) not to transfer any amount from the securities account to the commodity futures account.

11.5(3) A registrant who maintains a securities account and a commodity futures account for the same client may make a transfer of any amount of a free credit balance from the securities account to the commodity futures account (or from the commodity futures account to the securities account of the client) if

- (a) the transfer is made in accordance with a written agreement between the registrant and the client, and
- (b) the transfer is not a transfer referred to in subsection (1) and (2).

11.5(4) For the purposes of this section, “free credit balance” does not include money that is committed to be used on a specific settlement date as payment for securities if the registrant who maintains the securities account prepares financial statements on a settlement date basis.

Exemptions from requirements of sections 11.1 to 11.5

11.6 The Executive Director may exempt a registrant who is a member of a self regulatory organization from compliance with sections 11.1 to 11.5 if the Executive Director is satisfied that the registrant is subject to requirements imposed by the self regulatory organization that provide equal protection for the registrant’s clients.

Policies governing accounts

11.7(1) Every adviser must

- (a) establish and carry out standards that ensure fairness in the allocation of investment opportunities among the adviser’s clients,
- (b) provide a copy of the policies established under clause (a) to each client, and
- (c) file a copy of the policies established under clause (a) with the Executive Director.

11.7(2) Every adviser must charge clients directly for the adviser’s services and that charge

- (a) may be based upon the dollar value of the client’s portfolio, but not on the value or volume of the transactions initiated for the client, and
- (b) must not be contingent on profits or performance, except with the written agreement of the client,

11.7(3) Subject to subsection (4), every adviser must ensure that

- (a) the account of each client is supervised separate and distinct from other clients, and
- (b) except in the case of mutual funds or pension funds, an order placed on behalf of one account is not pooled with that of another account.

11.7(4) An adviser must ensure that the account of each client is supervised, separate and distinct from other clients but, subject to the by-laws of the exchange with respect to

commission rate structure, an order placed on behalf of one account may be pooled with that of another account.

11.7(5) If

- (a) there has been a material change in the ownership or control of the adviser, or
- (b) it is proposed that an adviser sell or assign the account of a client in whole or in part to another registrant,

the adviser must

- (c) before the sale or assignment and immediately after the material change, give a written explanation to the client of the proposal or change, and
- (d) inform the client of the client's right to withdraw the client's account.

11.7(6) No purchase or sale of any security in which an adviser or any partner, officer or associate of an adviser has a direct or indirect beneficial interest may be made from or to any portfolio managed or supervised by the adviser.

PART 12: DISCLOSURE TO CLIENTS

Confirmation of trade - mutual fund

12.1(1) If a trade is made in a security of a mutual fund under a contractual plan that requires some charges to be prepaid but permits other charges to be deducted from first and subsequent installments, the confirmation of trade must contain, in addition to the requirements of subsection 56 (1), (2), (3)(d), (4) and (6) of the *Securities Act*, the disclosure under

- (a) paragraphs 56(3)(a) and (b) of the Act in respect of sales, service and other charges or any portions of those charges that are prepaid, and
- (b) paragraph 56(3)(c) of the Act in respect of sales, service and other charges or any portions of those charges that are to be deducted from subsequent installments.

12.1(2) If a client advises a registered dealer in writing before a trade in a security of a mutual fund of the client's participation in

- (a) an automatic payment plan,
- (b) an automatic withdrawal plan, or

(c) a contractual plan,

that provides for systematic trading in securities of the mutual fund at least once a month, the registered dealer

(d) must provide the confirmation of that trade as required under this section, and

(e) following the provision of confirmation under paragraph (d), may thereafter, during the continued participation by the client in the plan, provide confirmation of the trades in securities

(i) by sending to the client at least semi-annually written summaries of the trades, or

(ii) as provided for under this section.

12.1(3) Where a summary is provided under subsection (2)(e)(i), the summary must

(a) contain the information required to be disclosed to a customer under this section, and

(b) be provided for those trades that have taken place since the last confirmation or summary of trades was provided to the client.

12.1(4) A registered dealer who complies with subsection (2) is not required to comply with paragraph 56(1)(d) of the Act if the confirmation or summary of trades contains a statement that the name of the person from, to or through whom the security of the mutual fund was bought or sold will be furnished to the client on request.

Confirmation and reporting of trades-related or connected issuer

12.2(1) The written confirmation required by subsection 56(1) of the Act to be sent by a registrant in connection with a sale or a purchase of securities must, in the case of a sale or a purchase of securities of the registrant or a related issuer of the registrant, or, in the course of a distribution of securities of a connected issuer of the registrant, state that the securities are securities of the registrant, a related issuer of the registrant or a connected issuer of the registrant, as the case may be.

12.2(2) If a registrant sends or delivers to a customer or client any report, other than the written confirmation referred to in subsection (1), of any trades in securities that the registrant has made with or on behalf of the customer or client, including any report of trades made by or at the direction of a registrant acting as a portfolio manager, the report must, in respect of trades in securities of the registrant or a related issuer of the registrant, or, in the course of a distribution, in respect of securities of a connected issuer

of the registrant, state that the securities are securities of the registrant, a related issuer of the registrant or a connected issuer of the registrant, as the case may be.

Statements of account and portfolio

12.3(1) Subject to subsection (5), a registered dealer must send a statement of account to each client at the end of each month in which the client has effected a transaction, where there is a debit or credit balance or securities held.

12.3(2) Subject to subsection (5), where a client has not effected a transaction but there are either funds or securities held by the registered dealer on a continuing basis, the registered dealer must forward a statement of account to the client showing any debit or credit balance and the details of any securities held or owned not less than once every 3 months.

12.3(3) The statements required by subsections (1) and (2) must list the securities held for the client and indicate clearly which securities are held for safekeeping or in segregation.

12.3(4) A mutual fund dealer is not required to comply with subsections (1) and (2) if a statement of account is sent to each client not less frequently than once every 12 months, showing the number and market value at the date of purchase or redemption of securities purchased or redeemed during the period since the date of the last statement sent under this subsection and showing the total market value of all securities of the mutual fund held by the client at the date of the statement.

12.3(5) Except where the client has expressly directed otherwise, every portfolio manager and investment counsel must send to each client not less than once every 3 months, a statement of the client's portfolio.

Statement of Policies

12.4(1) Every registrant must prepare and file with the Executive Director a statement of policies that contains

- (a) a full and complete statement of the policies of the registrant regarding the activities in which it is prepared to engage as an adviser, dealer and underwriter in respect of securities of the registrant and related issuers of the registrant and, in the course of a distribution, of securities of connected issuers of the registrant,
- (b) a list of the related issuers of the registrant that are reporting issuers in one or more jurisdictions of Canada,

(c) a concise statement of the relationship between the registrant and each of the related issuers of the registrant referred to in paragraph (b), and

(d) the following note, or an expanded version of it, in a conspicuous position and in bold face type not less legible than that used in the body of the statement of policies:

“Securities legislation requires persons or companies registered as dealers or advisers, when they trade in or advise with respect to their own securities or securities of certain other issuers to which they, or certain other parties related to them, are related or connected, to do so only in accordance with particular disclosure and other rules. These rules require dealers and advisers, prior to trading with or advising their clients, to inform them of the relevant relationships and connections with the issuer of the securities. Clients should refer to the applicable provisions of securities legislation for the particulars of these rules and their rights or consult with a legal adviser.”

12.4(2) A registrant must provide to each client, free of charge, a copy of its statement of policies at the time the client becomes a customer or client of the registrant.

12.4(3) In the event of any significant change in the information required to be contained in the statement of policies of a registrant, the registrant must

(a) promptly prepare and file with the Executive Director, a revised version of, or amendment to, the statement of policies, and

(b) provide to each client a copy of the revised version or amendment, as the case may be, either,

(i) within 45 days of the filing, or

(ii) promptly after the first trade by the registrant with or on behalf of the client or the first time at which the registrant acts as an adviser to the client, as the case may be,

whichever is earlier.

12.4(4) Despite subsection (1), a registrant that does not engage in activities of a registrant in respect of securities of the registrant or of related issuers of the registrant or, in the course of a distribution, in respect of the securities of connected issuers of the registrant, is not required to prepare or file a statement of policies if it files with the Executive Director a statement that it does not engage in such activities and an undertaking that it will not engage in such activities except in compliance with this Part.

Part 13: CONFLICTS

Trading restrictions

13.1 No registrant, as principal or agent, shall

- (a) trade in securities of the registrant or of any related issuer of the registrant with or on behalf of any client of the registrant, or
- (b) purchase securities of the registrant or of any related issuer of the registrant from or on behalf of any client of the registrant.

Advising restrictions

13.2(1) No registrant shall act as an adviser in respect of securities of the registrant or of a related issuer of the registrant or, in the course of a distribution, in respect of securities of a connected issuer of the registrant.

13.2(2) Subsection (1) does not apply,

- (a) in the case of a registrant, acting otherwise than as an adviser, if the registrant, before advising the client, provides the client with a concise statement, either orally or in writing, describing the relationship or connection between the registrant and the issuer of the securities,
- (b) in the case of a registrant acting as an adviser, if the registrant, before acquiring discretionary authority in respect of the securities and once within each 12-month period afterwards,
 - (i) provides the client with the statement of policies of the registrant, and
 - (ii) secures the specific and informed written consent of the client to the exercise of the discretionary authority in respect of the securities, or
- (c) if the client is a fully registered dealer or related issuer of the registrant.

13.2(3) For the purposes of subparagraph (2) (b) (ii),

- (a) a general power to invest in the discretion of the adviser does not constitute specific consent, and
- (b) consent is only informed if the adviser believes and has reasonable grounds for believing that it is informed.

Recommendation restrictions

13.3(1) No registrant shall, in any medium of communication, recommend, or co-operate with any other person in the making of a recommendation, that securities of the registrant or a related issuer of the registrant or, in the course of a distribution, that securities of a connected issuer of the registrant, be purchased, sold or held.

13.3(2) Subsection (1) does not apply to a recommendation in a document that

- (a) is published, issued or sent by the registrant and is of a type distributed with reasonable regularity in the ordinary course of its business,
- (b) includes in a conspicuous position, in a format not less legible than that used in the body of the document, a full and complete statement of the relationship or connection between the registrant and the issuer of the securities and of the obligations of the registrant under subsection (1) and this subsection,
- (c) includes information similar to the information set out in documents for a substantial number of the other persons that are in the same industry or business as the issuer of the securities, and
- (d) does not give greater space or prominence to the information set out about the issuer of the securities than to the information set out about any other person described in the document.

PART 14: OWNERSHIP

Notice of ownership

14.1 A registered firm that knows or reasonably ought to know that any person, either alone or in combination with any other person, is about to acquire, directly or indirectly, beneficial ownership of, or to exercise control or direction over, 10% or more of any class or series of voting securities of the firm must promptly give written notice of that fact to the Executive Director together with the name of each person involved.

Ownership of registered firm

14.2(1) A registrant who is a registered firm or a partner or officer of a registered firm and who proposes to acquire directly or indirectly, beneficial ownership of or control or direction over any security of any other registered firm, at least 30 days before the acquisition, must give written notice to the Executive Director providing all relevant facts to permit the Executive Director to determine if the acquisition

- (a) is likely to give rise to conflicts of interest,

(b) is likely to hinder a registrant in complying with the conditions of registration applicable to it,

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

(d) is otherwise prejudicial to the public interest.

14.2(2) If, within 30 days of the receipt of a notice under subsection (1), the Executive Director gives a written notice of objection to the registrant, the registrant must not make the acquisition until the Executive Director approves it.

14.2(3) The registrant, following receipt of a notice of objection under subsection (2), may request the Executive Director to hold a hearing on the matter.

14.2(4) Subsection (1) does not apply to

(a) a partner or officer of a registered firm who, alone or in combination with any other person, proposes to acquire securities that, together with the securities already beneficially owned or over which control or direction is already exercised, do not exceed more than 5 % of any class or series of securities of any other registered firm that are listed and posted for trading on a exchange in or outside Canada,

(b) an acquisition by a registered dealer in the ordinary course of its business of trading in securities.

PART 15: RENEWAL, SUSPENSION AND TERMINATION OF REGISTRATION

Renewal of registration for a registered firm

15.1(1) The process for renewal of registration as a dealer or adviser must be completed in accordance with Multilateral Instrument 31-102 *National Registration Database*.

15.1(2) If the information filed by the applicant in the last application for registration has changed and particulars of such change have not been filed with the Executive Director as an application for amendment of registration, an application for renewal of registration must be filed.

Renewal of registration for individuals

15.2 Renewal of registration must be completed in accordance with Multilateral Instrument 31-102 *National Registration Database*.

Suspension on lapse of registration or renewal of registration

15.3 (1) Every registration and renewal of registration is suspended at the end of the day on December 31.

15.3 (2) The registration or renewal of registration of every individual registrant of a registered firm is suspended at the same time as the registration or renewal of registration of the registered firm is suspended.

Continued suspension

15.4 If a review is commenced under Part 12 [*Record Keeping and Compliance Reviews*] or Part 13 [*Investigations*] of the *Securities Act*, the registration of the registered dealer, salesperson, partner or officer that has been suspended under section 15.3 [*Suspension on lapse of registration or renewal of registration*] continues in suspension until a decision has been made by the Commission or the Executive Director as applicable.

PART 16: BREACH OF REQUIREMENTS OF OTHER JURISDICTIONS

Breach of Requirements

16.1(1) The breach by a registrant or an applicant for registration, reinstatement, or renewal of the;

- (a) securities legislation,
- (b) securities directions,
- (c) regulations,
- (d) rules,
- (e) policies,
- (f) by laws,
- (g) procedures, or
- (h) practices,

of another jurisdiction, self regulatory agency or an exchange that were adopted for the protection of investors or to foster fair and efficient capital markets and to foster confidence in the markets, may be considered by the Executive Director to be prejudicial to the public interest and to affect the fitness for registration or continued registration of the firm or the individual.

16.1(2) Where fitness for registration is affected by virtue of a breach under subsection (1) then the Executive Director may suspend the registrant.