AMENDMENTS TO *POLICY STATEMENT TO REGULATION 31-103 RESPECTING REGISTRATION REQUIREMENTS AND EXEMPTIONS*

1. *Policy Statement to Regulation 31-103 respecting Registration Requirements and Exemptions* is amended by replacing, in the title, the words "**AND EXEMPTIONS**" with "**, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS**".

2. Section 1.1 of the Policy Statement is amended:

(1) by replacing, in the first paragraph, the words "*and Exemptions*" with ", *Exemptions and Ongoing Registrant Obligations*";

(2) by replacing the last bullet in the first list with the following:

"• securities and derivatives legislation in their jurisdiction";

(3) by replacing the introductory sentence under the title "**Delivering disclosure and notices**" with the following:

"Under section 1.3, registrants must deliver all disclosure and notices required under Regulation 31-103 to the registrant's principal regulator. This does not apply to notices under sections:".

3. Section 1.2 of the Policy Statement is amended:

(1) by deleting, in the sentence under the title "**Permitted client**", the words "of Regulation 31-103";

(2) by replacing the last paragraph under the title "**Paragraph (o) of the definition**" with the following:

"Realizable value is typically the amount that would be received by selling an asset. The value attributed to assets should reasonably reflect their estimated fair value.".

4. Section 1.3 of the Policy Statement is amended:

(1) by inserting the following after the first list:

"A registered firm is responsible for the conduct of the individuals whose registration it sponsors. A registered firm

• must undertake due diligence before sponsoring an individual to be registered to act on its behalf (see further guidance in Part 4 *Due diligence* by firms of the Policy Statement to Regulation 33-109)

• has an ongoing obligation to monitor and supervise its registered individuals in an effective manner (see further guidance in section 11.1 of this Policy Statement)

Failure of a registered firm to take reasonable steps to discharge these responsibilities may be relevant to the firm's own continued fitness for registration.".

(2) by replacing, in the next to last paragraph under the title "**Requirement to register**", the words "Individuals who act" with the words "Except for the UDP and the CCO, individuals who act";

(3) by inserting, in the paragraph under the title "***Registration exemptions***", the following sentence after the first sentence:

"There may be additional exemptions in securities legislation.";

(4) by deleting, in the next to last paragraph of subparagraph (a) under the title "***Business trigger examples***", the words "of Regulation 31-103";

(5) by replacing, wherever it occurs in subparagraph (a) under the title "***Assessing fitness for registration – individuals***", the word "products" with the word "securities".

5. The Policy Statement is amended by adding, after section 1.3, the following:

"**1.4. Use IFRS to determine the fair value of securities**

Where Regulation 31-103 requires the determination of the fair value of securities, it must be determined in accordance with International Financial Reporting Standards (IFRS). For guidance with respect to the use of fair value in account statements, see section 14.14 of this Policy Statement.".

6. Section 2.1 of the Policy Statement is amended by deleting the paragraph entitled "**Multiple firms**".

7. Section 2.2 of the Policy Statement is amended:

(1) by inserting, before the first paragraph, the title "**Conditions of the exemption**";

(2) by deleting, in the first paragraph, the words "of Regulation 31-103";

(3) by replacing, in the French text of the second bullet in the list, the words "l'exercer'" with the words "exercer ces activités";

(4) by adding, after the last paragraph, the following:

"**Limits on the number of clients**

Sections 2.2 and 8.30 are independent of each other: individuals may rely on section 2.2 in circumstances where they are not registered in the local jurisdiction even though their sponsoring firm does not rely on section 8.30 because the firm is registered in the local jurisdiction. The limits are per jurisdiction. For example a firm using the exemption could have 10 clients in each of several local jurisdictions where it is not registered. An individual could also be using the exemption to have 5 clients in each of several jurisdictions where the individual is not registered.

The individual limits are per individual. For example several individuals working for a firm could each have 5 clients in the same local jurisdiction, if their firm was registered in the jurisdiction. Even if a firm is registered in a local jurisdiction and has more than 10 clients served by registered individuals it can have unregistered individuals using the exemption in the jurisdiction. If a firm is not registered in a jurisdiction, the firm may not exceed its 10 client limit, shared among its representatives.".

8. The Policy Statement is amended by adding, at the end of the paragraph before section 3.3, the following:

"Certain charters and designations such as Chartered Financial Analyst (CFA) and Canadian Investment Manager (CIM) may also be recognized. The regulator is required to determine the individual's fitness for registration and may exercise discretion in doing so.".

9. Section 3.3 of the Policy Statement is amended:

(1) by replacing the paragraphs before the title "**Relevant securities industry experience**" with the following:

"Under section 3.3, there is a time limit on the validity of exams prescribed in Part 3. Individuals must pass an exam within 36 months before they apply for registration. However, this time limit does not apply if the individual:

- was registered in an active capacity (i.e., not suspended), in the same category in a jurisdiction of Canada at any time during the 36-month period before the date of their application; or

- has gained relevant securities industry experience for a total of 12 months during the 36-month period before the date of their application: these months do not have to be consecutive, or with the same firm or organization

These time limits do not apply to the CFA Charter or the CIM designation.

When assessing an individual's fitness for registration, the regulator may consider

- the date on which the relevant examination was passed, and

- the length of time between any suspension and reinstatement of registration during the 36 month period.

See Part 6 of this Policy Statement for guidance on the meaning of "suspension" and "reinstatement".".

10. The Policy Statement is amended by adding, at the end of the first bullet in the list under the paragraph under the title "**Proficiency for representatives of restricted dealers and restricted portfolio managers**", ", and".

11. Section 3.4 of the Policy Statement is replaced with the following:

"**3.4. Proficiency – initial and ongoing**

Proficiency principle

Under section 3.4, registered individuals must not perform an activity that requires registration unless they have the education, training and experience that a reasonable person would consider necessary to perform the activity competently and to understand the structure, features and risks of each security they recommend to a client.

CCOs must also not perform an activity that requires registration unless they have the education, training and experience that a reasonable person would consider necessary to perform the activity competently.

Responsibility of the firm

The responsibility of registered firms to oversee the compliance of registered individuals acting on their behalf extends to ensuring that they are proficient at all times. A registered firm must not permit an individual they sponsor to perform an activity if the proficiency requirements are not met.

Firms should perform their own analysis of all securities they recommend to clients and provide product training to ensure their registered representatives have a sufficient understanding of the securities and their risks to meet their suitability obligations

under section 13.3. Similarly, registered individuals should have a thorough understanding of a security before they recommend it to a client.".

12. The first paragraph of sections 3.11 and 3.12 of the Policy Statement is amended by deleting the words "of Regulation 31-101".

13. The first paragraph of section 3.16 of the Policy Statement is replaced with the following:

"Section 3.16 exempts registered individuals who are dealing representatives of IIROC or MFDA members from the requirements in Regulation 31-103 for suitability and disclosure when recommending the use of borrowed money. This is because IIROC and the MFDA have their own rules for these matters.

In Québec, these requirements do not apply to dealing representatives of a mutual fund dealer to the extent that equivalent requirements are applicable to those dealing representatives under regulations in Québec.".

14. The Policy Statement is amended by inserting, after the title "**PART 4 RESTRICTIONS ON REGISTERED INDIVIDUALS**", the following section:

"**4.1. Restrictions on acting for another registered firm**

An individual may not be registered as a dealing, advising or associate advising representative for more than one registered firm (even if the firms are affiliated). We will consider exemption applications for individuals on a case by case basis. When considering an application for relief from this restriction, we will require evidence that:

- there are valid business reasons for the individual to be registered with both firms
- the individual will have sufficient time to adequately serve both firms
- the applicant's sponsoring firms have demonstrated that they have policies and procedures addressing any conflicts of interest that may arise as a result of the dual registration, and
- the sponsoring firms will be able to deal with these conflicts

Affiliation of the firms may be one of the factors that we would consider.

Under section 4.1, a registered individual must not act as a director of another registered firm that is not an affiliate of the individual's sponsoring firm. See section 13.4 [*Identifying and responding to conflicts of interests*] of this Policy Statement for further guidance on individuals who serve on boards of directors.".

15. The first paragraph of section 4.2 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

16. Part 5 of the Policy Statement is amended:

(1) by deleting, in the first paragraph, the words "of Regulation 31-103";

(2) in section 5.2:

(a) by replacing, in the French text of the first paragraph, the words "le contrôle" with the words "la surveillance";

(b) by deleting, in the seventh paragraph, the words "of Regulation 31-103".

17. Section 6.1 of the Policy Statement is amended:

(1) by deleting, in the first paragraph, the words "of Regulation 31-103";

(2) by replacing, in the second paragraph, the word "five" with the word "seven";

(3) by replacing the third and fourth paragraphs with the following:

"The firm must file additional information about the individual's termination prescribed in Part 5 of Form 33-109F1 (except where the individual is deceased), no later than 30 days after the date of termination. The regulator uses this information to determine if there are any concerns about the individual's conduct that may be relevant to their ongoing fitness for registration. Under Regulation 33-109, the firm must provide this information to the individual on request.";

(4) by inserting, in the first bullet in the list under the title "***Automatic suspension***", the word "a" after the word "have".

18. The first paragraph of section 6.6 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

19. Section 7.1 of the Policy Statement is amended by deleting, in the first paragraph under the title "**Exempt market dealer**", the words "of Regulation 31-103".

20. Section 7.2 of the Policy Statement is amended:

(1) by deleting, in the first paragraph, the words "of Regulation 31-103";

(2) by replacing the last paragraph under the title "**Restricted portfolio manager**" with the following:

"The regulator will impose terms and conditions on a restricted portfolio manager's registration that limit the manager's activities. For example, a restricted portfolio manager might be limited to advising in respect of a specific sector, such as securities of oil and gas issuers.".

21. Sections 8.5 and 8.6 of the Policy Statement are replaced with the following:

"**8.5. Trades through or to a registered dealer**

Section 8.5 provides an exemption from the dealer registration requirement for trades made

- solely through an appropriately registered dealer or
- to an appropriately registered dealer that is purchasing for its own account

The exemption is available in respect of a trade through a registered dealer so long as there is no intervening dealing activity by a third party that is not registered or exempt from registration for such activity. This is typically the case, for example, where an individual trades through their account with an investment dealer or a company issues its own securities through an investment dealer. The exemption is not available where a person conducts dealing activities for which they are not registered or exempt from registration and then directs the execution of those trades by a registered dealer.

Cross-border "jitneys"

The exemption requires that all trading activity that occurs within the local jurisdiction is done through or to a dealer registered dealer in that jurisdiction. On that basis, the execution of a trade through or to an appropriately registered dealer by a dealer located in another jurisdiction would qualify under the exemption in section 8.5. However, if the dealer in the other jurisdiction engages in other trading activities in the local jurisdiction in connection with the transaction, the trade is no longer a trade made solely through or to a registered dealer and the exemption would not be available.

A trade is not be solely through a registered dealer if the dealer in the other jurisdiction (or its client) interacts directly with the purchaser in the local jurisdiction. For example, if a dealer in the United States that is not registered in Alberta contacts a potential purchaser in Alberta to solicit the purchase of securities, this trade does not qualify for this exemption. The dealer in the United States must instead solicit the purchase by contacting a dealer registered in Alberta, and have that dealer contact potential purchasers in Alberta.

Plan administrators

A plan administrator can rely on the exemption in section 8.5 to place sell orders with dealers in respect of shares of issuers held by plan participants. Section 8.16 [*Plan administrator*] covers the activity of the plan administrator receiving sell orders from plan participants.

"**8.6. Investment fund trades by adviser to managed account**

Registered advisers often create and use investment funds as a way to efficiently invest their clients' money. In issuing units of those funds to managed account clients, they are in the business of trading in securities. Under the exemption in section 8.6, registered advisers do not have to register as a dealer for a trade in a security of an investment fund if they:

- act as the fund's adviser and investment fund manager, and
- distribute units of the fund only into their clients' managed accounts

The exemption is also available to those who qualify for the international adviser exemption under section 8.26.

Subsection 8.6(2) limits the availability of this exemption to legitimate managed accounts. We do not intend for the exemption to be used to distribute the adviser's investment funds on a retail basis.".

22. The Policy Statement is amended by inserting, after section 8.6, the following:

"**8.18. International dealer**

General principle

This exemption allows non-Canadian dealers to provide limited services to Canadian permitted clients, without having to register in Canada. Non-Canadian dealers that seek wider access to Canadian investors must register in an appropriate category.

Firm also registered to conduct other activities in Canada

If a person relies on the registration exemption in section 8.18 for trades with permitted clients, but is registered to conduct other activities in Canada, the requirements under Regulation 31-103 applicable to its registerable activities do not apply to its activities under the exemption. For example, a foreign firm that is registered as a portfolio manager and also conducts trades contemplated under this exemption must provide the notice to

clients required under section 14.5, and like all portfolio managers, provide account statements to the clients. However, it is not required to provide any of these documents to its permitted clients on whose behalf it trades under the international dealer exemption, so long as it complies with the conditions of section 8.18.

Notice requirement

If a firm is relying on the exemption in more than one jurisdiction, it must provide an initial notice by filing a *Form 31-103F2 Submission to Jurisdiction and Appointment of Agent for Service* (F2) with the regulator in each jurisdiction where it relies on the exemption. If there is any change to the information in the firm's F2, it must update it by filing a replacement F2 with them.

So long as the firm continues to rely on the exemption, it must file an annual notice with each regulator. Subsection 8.18(5) does not prescribe a form of annual notice. An email or letter will therefore be acceptable.

In Ontario, compliance with the filing and fee payment requirements applicable to an unregistered exempt international dealer under Ontario Securities Commission Rule 13-502 Fees satisfies the annual notification requirement in subsection (5).".

23. The first paragraph of section 8.19 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

24. The first paragraph of section 8.25 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

25. The Policy Statement is amended by inserting, after section 8.25, the following:

"**8.26. International adviser**

This exemption allows non-Canadian advisers to provide limited services to Canadian permitted clients, without having to register in Canada. Non-Canadian advisers that seek wider access to Canadian investors must register in an appropriate category.

Incidental advice on Canadian securities

An international adviser relying on the exemption in section 8.26 may advise in Canada on foreign securities without having to register. It may also advise in Canada on securities of Canadian issuers, if providing the advice is incidental to its providing advice on a foreign security. However, this is not a 'carve out' that allows some portion of a permitted client's portfolio to be made up of Canadian securities chosen by the international adviser without restriction. Any advice with respect to Canadian securities must be directly related to the activity of advising on foreign securities. For example, an international adviser may recommend a foreign investment fund that primarily holds foreign securities, but which also holds some Canadian securities, and still meet the conditions of the exemption.

Revenue derived in Canada

An international adviser is only permitted to undertake a prescribed amount of business in Canada. In making the calculation required under paragraph 8.26(4)(d), it is necessary to include all revenues derived from portfolio management activities in Canada, which would include any sub-adviser arrangements. However, the calculation of aggregate consolidated gross revenue derived in Canada does not include the gross revenue of affiliates that are registered in a jurisdiction of Canada. An international adviser is not required to monitor Canadian revenue on an ongoing basis. Eligibility for the exemption is assessed with reference to revenues as of the end of the

adviser's financial year. The 10% threshold in paragraph 8.26(4)(d) is determined by looking back at the revenue of the firm and its affiliates "during its most recently completed financial year".

Notice requirement

If a firm is relying on the exemption in more than one jurisdiction, it must provide an initial notice by filing a *Form 31-103F2 Submission to Jurisdiction and Appointment of Agent for Service* (F2) with the regulator in each jurisdiction where it relies on the exemption. If there is any change to the information in the firm's F2, it must update it by filing a replacement F2 with them.

So long as the firm continues to rely on the exemption, it must file an annual notice with each regulator. Subsection 8.26(5) does not prescribe a form of annual notice. An email or letter will therefore be acceptable.

In Ontario, compliance with the filing and fee payment requirements applicable to an unregistered exempt international firm under Ontario Securities Commission Rule 13-502 Fees satisfies the annual notification requirement in subsection (5).".

26. Section 8.28 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

27. Section 8.30 of the Policy Statement is amended:

(1) by deleting, in the first paragraph, the words "of Regulation 31-103";

(2) by replacing the next to last bullet in the list with the following:

"• it complies with Part 13 [*Dealing with clients – individuals and firms* and 14 *Handling client accounts – firms*], and";

(3) by adding, after the last paragraph, the following:

"See the guidance in section 2.2 of this Policy Statement on the client mobility exemption available to individuals.".

28. The Policy Statement is amended by inserting, after the title of section 9.3, the following:

"**9.4. Exemptions from certain requirements for MFDA members**".

29. The first paragraph of section 9.3 of the Policy Statement is replaced with the following:

"Section 9.3 and 9.4 contain an exemption from certain requirements for investment dealers that are IIROC members, for mutual fund dealers that are MFDA members and in Québec, for mutual fund dealers to the extent equivalent requirements are applicable under the regulations in Québec. However, if an SRO member is registered in another category, these sections do not exempt them from their obligations as a registrant in that category.".

30. Section 10.1 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

31. Section 10.2 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

32. Section 10.3 of the Policy Statement is amended by deleting, in the first paragraph, the words “of Regulation 31-103”.

33. Section 10.6 of the Policy Statement is amended by replacing the first paragraph with the following:

“Under sections 10.5 and 10.6, if a firm’s registration has been suspended under Part 10 and has not been reinstated, it is revoked on the second anniversary of the suspension, except if a hearing or proceeding concerning the suspended registrant has commenced. In this case the registration remains suspended.”.

34. Section 11.1 of the Policy Statement is amended:

(1) under the title “**General principles**”:

(a) by deleting, in the first paragraph, the words “of Regulation 31-103”;

(b) by replacing, in the second bullet in the list under the first paragraph, the words “business risks” with the words “risks associated with the firm’s business”;

(c) by replacing the second and third paragraphs with the following:

“Operating an effective compliance system is essential to a registered firm’s continuing fitness for registration. It provides reasonable assurance that the firm is meeting, and will continue to meet, all requirements of applicable securities laws and SRO rules and is managing risk in accordance with prudent business practices. A compliance system should include internal controls and monitoring systems that are reasonably likely to identify non-compliance at an early stage and supervisory systems that allow the firm to correct non-compliant conduct in a timely manner.

The responsibilities of the UDP are set out in section 5.1 and those of the CCO in section 5.2 . However, compliance is not only a responsibility of a specific individual or a compliance department of the firm, but rather is a firm-wide responsibility and an integral part of the firm’s activities. Everyone in the firm should understand the standards of conduct for their role. This includes the board of directors, partners, management, employees and agents, whether or not they are registered.

Having a UDP and CCO, and in larger firms, a compliance group and other supervisory staff, does not relieve anyone else in the firm of the obligation to report and act on compliance issues. A compliance system should identify those who will act as alternates in the absence of the UDP or CCO.”;

(2) under the title “**Elements of an effective compliance system**”:

(a) by replacing the first paragraph with the following:

“While policies and procedures are essential, they do not make an acceptable compliance system on their own. An effective compliance system also includes internal controls, day-to-day and systemic monitoring, and supervision elements.”;

(b) by replacing the paragraph under the title “***Internal controls***” with the following:

“Internal controls are an important part of a firm’s compliance system. They should mitigate risk and protect firm and client assets. They should be designed to assist firms in monitoring compliance with securities legislation and managing the risks that affect their business, including risks that may relate to:

- safeguarding of client and firm assets

- accuracy of books and records
- trading, including personal and proprietary trading
- conflicts of interest
- money laundering
- business interruption
- hedging strategies
- marketing and sales practices, and
- the firm's overall financial viability";

(c) by replacing the title "***Supervision***" with "***Monitoring and supervision***";

(d) under the title "***Supervision***":

(i) by replacing the paragraph with the following:

"Monitoring and supervision are essential elements of a firm's compliance system. They consist of day-to-day monitoring and supervision, and overall systemic monitoring.";

(ii) by replacing subparagraph (a) with the following:

"***(a) Day-to day monitoring and supervision***

In our view, an effective monitoring and supervision system includes:

- monitoring to identify specific cases of non-compliance or internal control weaknesses that might lead to non-compliance
- referring non-compliance or internal control weaknesses to management or other individuals with authority to take supervisory action to correct them
- taking supervisory action to correct them, and
- minimizing the compliance risk in key areas of a firm's operations

In our view, effective day-to-day monitoring should include, among other things

- approving new account documents
- reviewing and, in some cases, approving transactions
- approving marketing materials, and
- preventing inappropriate use or disclosure of non-public information.

Firms can use a risk-based approach to monitoring, such as reviewing an appropriate sample of transactions.

The firm's management is responsible for the supervisory element of correcting non-compliance or internal control weaknesses. However, at a firm's discretion, its CCO may be given supervisory authority, but this is not a necessary component of the CCO's role.

Anyone who supervises registered individuals has a responsibility on behalf of the firm to take all reasonable measures to ensure that each of these individuals:

- deals fairly, honestly and in good faith with their clients
- complies with securities legislation
- complies with the firm's policies and procedures, and
- maintains an appropriate level of proficiency";

(iii) in subparagraph (b):

(A) by replacing, in the French text of the title, the words "***Le contrôle***" with the words "***La surveillance***";

(B) by replacing, in the French text of the introductory sentence, the words "Le contrôle" with the words "La surveillance";

(C) by replacing the first bullet in the list under the first paragraph with the following:

"• the firm's day-to-day supervision is reasonably effective in identifying and promptly correcting cases of non-compliance and internal control weaknesses";

(e) by replacing, in the French text of the second bullet in the list under subparagraph (c) under the title "***Specific elements***", the word "contrôler" with the word "surveiller".

35. Section 11.2 of the Policy Statement is replaced with the following:

"**11.2. Designating an ultimate designated person**

Under subsection 11.2(1), registered firms must designate an individual to be the UDP. Firms should ensure that the individual understands and is able to perform the obligations of a UDP under section 5.1.The UDP must be:

- the chief executive officer of the registered firm or the individual acting in a similar capacity, if the firm does not have a CEO. The person acting in a similar capacity to a CEO is the most senior decision maker in the firm, who might have the title of managing partner or president, for example
- the sole proprietor of the registered firm, or
- the officer in charge of a division of the firm that carries on all of the registerable activity if the firm also has significant other business activities, such as insurance, conducted in different divisions. This is not an option if the core business of the

firm is trading or advising in securities and it only has some other minor operations conducted in other divisions. In this case, the UDP must be the CEO or equivalent.

To designate someone else as the UDP requires an exemptive relief order. Given that the intention of section 11.2 is to ensure that responsibility for its compliance system rests at the very top of a firm, we will only grant relief in rare cases.

We note that in larger organizations, the UDP is sometimes supported by an officer who has a compliance oversight role and title within the organization and who is more senior than the CCO. We have no objection to such arrangements, but it must be understood that they can in no way diminish the UDP's regulatory responsibilities.

If the person designated as the UDP no longer meets these requirements, and the registered firm is unable to designate another UDP, the firm should promptly advise the regulator of the actions it is taking to designate a new UDP who meets those requirements.".

36. Section 11.3 of the Policy Statement is amended by deleting, wherever they occur, the words "of Regulation 31-103".

37. The first paragraph of section 11.5 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

38. Section 11.6 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

39. The first paragraph of section 11.8 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

40. The first paragraph of section 11.9 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

41. The first paragraph of section 11.10 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

42. Section 12.1 of the Policy Statement is amended:

(1) by deleting, in the first paragraph, the words "of Regulation 31-103";

(2) by inserting, after the second paragraph, the following:

"Except as otherwise provided in Regulation 31-103, IIROC and MFDA member firms that are also registered in a category that does not require SRO membership must still comply with the financial filing requirements in Part 12 [*Financial condition*] even if they are relying on the exemptions in sections 9.3 and 9.4.

For example, if the SRO firm is also an investment fund manager, it will need to report any net asset value (NAV) adjustments quarterly in order to comply with the investment fund manager requirements, notwithstanding that its SRO has no such requirements. See sections 12.12 and 12.14 for the requirements on delivery of working capital calculations for SRO members that are registered in multiple categories.";

(3) under the title "**Insurance coverage limits**":

(a) by replacing the first paragraph with the following:

"Registrants must maintain bonding or insurance that provides for a "double aggregate limit" or a "full reinstatement of coverage" (also known as "no aggregate limit"). The insurance provisions state that the registered firm must "maintain" bonding or insurance in the amounts specified. We do not expect that the calculation would differ

materially from day-to-day. If there is a material change in a firm's circumstances, it should consider the potential impact on its ability to meet its insurance requirements.

Most insurers offer aggregate limit policies that contain limits based on a single loss and on the number or value of losses that occur during the coverage period.";

(b) by adding, at the end of the section, the following:

"**Insurance requirements not cumulative**

Insurance requirements are not cumulative. For a firm registered in the categories of portfolio manager and investment fund manager, insurance coverage must be for the higher amount required for either registration category. Despite being registered as both a portfolio manager and an investment fund manager, when calculating the investment fund manager insurance requirement under subsection 12.5(2), an investment fund manager should only include the total assets under management of its own investment funds. It is only with respect to its own funds that the registrant is acting as an investment fund manager.".

43. Section 12.14 of the Policy Statement is amended:

(1) by deleting, in the first paragraph, the words "of Regulation 31-103";

(2) by inserting, in the last paragraph, "*Correcting Portfolio NAV Errors*" after "Bulletin Number 22".

44. Section 13.2 of the Policy Statement is amended:

(1) by deleting, in the first paragraph, the words "of Regulation 31-103";

(2) by inserting, after the last paragraph under the title "**Identifying insiders**", the following paragraphs:

"You do not need to ascertain whether your client is an insider if an individual or firm's only registration categories are a combination of those listed in section 13.2(7) (a) to (c). Any registered firm relying on this exemption or any individual registered to act on its behalf may not ignore information that it may become aware of concerning insider trading.

In addition, we encourage firms, when selling highly concentrated pooled funds, to enquire whether a client is an insider of the issuer of any securities held by the fund, notwithstanding the exemption provided in subsection 13.2(7).

This exemption does not change an insider's reporting and conduct responsibilities.".

45. Section 13.3 of the Policy Statement is amended by replacing the first three paragraphs with the following:

"**Suitability obligation**

Subsection 13.3(1) requires registrants to take reasonable steps to ensure that a proposed trade is suitable for a client before making a recommendation or accepting instructions from the client. To meet this suitability obligation, registrants should have in-depth knowledge of all securities that they buy and sell for, or recommend to, their clients. This is often referred to as the "know your product" or KYP obligation.

Registrants should know each security well enough to understand and explain to their clients the security's risks, key features, and initial and ongoing costs and

fees. Having the registered firm's approval for representatives to sell a product does not mean that the product will be suitable for all clients. Individual registrants must still determine the suitability of each transaction for every client.

Registrants should also be aware of, and act in compliance with, the terms of any exemption being relied on for the trade or distribution of the security.".

46. Section 13.4 of the Policy Statement is amended:

(1) by deleting, in the first paragraph, the words "of Regulation 31-103";

(2) by replacing, under the title "***Disclosing conflicts of interest***", the last sentence of subparagraph (b) with the following:

"For example, if a registered individual recommends a security that they own, this may constitute a material conflict which should be disclosed to the client before or at the time of the recommendation.";

(3) by replacing, in the last paragraph under the title "***Relationships with related or connected issuers***", the words "that is a mutual fund and an affiliate" with the words "that is a mutual fund managed by an affiliate";

(4) under the title "***Individuals who serve on a board of directors***":

(a) by replacing the first paragraph with the following:

"***(a) Board of directors of another registered firm***

Under section 4.1, a registered individual must not act as a director of another registered firm that is not an affiliate of the individual's sponsoring firm.

(b) Board of directors of non registered persons

Section 4.1 does not apply to registered individuals who act as directors of a unregistered firm. However, significant conflicts of interest can arise when registered individuals serve on a board of directors. Examples include conflicting fiduciary duties owed to the company and to a registered firm or client, possible receipt of inside information and conflicting demands on the representative's time.";

(b) by inserting, in the last paragraph, the words "application for registration or" after the words "when assessing that individual's".

47. Section 13.5 of the Policy Statement is amended:

(1) by replacing the first paragraph with the following:

"Section 13.5 prohibits a registered adviser and a registered dealer that is a member of IIROC and conducts advising activities from engaging in certain transactions in investment portfolios it manages for clients on a discretionary basis where the relationship may give rise to a conflict of interest or a perceived conflict of interest. The prohibited transactions include trades in securities in which a responsible person or an associate of a responsible person may have an interest or over which they may have influence or control.";

(2) by replacing the first paragraph under the title "**Disclosure when responsible person is partner, director or officer of issuer**" with the following:

"Subsection 13.5(2)(a) prohibits a registered adviser and a registered dealer that is a member of IIROC and conducts advising activities from purchasing securities of an issuer in which a responsible person or an associate of a responsible person is a partner,

officer or director for a client's managed account. The prohibition applies unless the conflict is disclosed to the client and the client's written consent is obtained prior to the purchase".

48. Section 13.6 of the Policy Statement is amended:

(1) by deleting, in the first paragraph, the words "of Regulation 31-103";

(2) by inserting, in the second bullet in the list under the title "**Division 3 Referral arrangements**", the words "to the written agreement" after the word "parties";

(3) by inserting, after the list, the following paragraph:

"Registered firms have a responsibility to monitor and supervise all of their referral arrangements to ensure that they comply with the requirements of Regulation 31-103 and other applicable securities laws and continue to so comply for so long as the arrangement remains in place.".

49. Section 13.7 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

50. Section 13.8 of the Policy Statement is amended:

(1) by replacing the first paragraph with the following:

"Under section 13.8, parties to a referral arrangement are required to set out the terms of the arrangement in a written agreement. This is intended to ensure that each party's roles and responsibilities are made clear. This includes obligations for registered firms involved in referral arrangements to keep records of referral fees. Payments do not necessarily have to go through a registered firm, but a record of all payments related to a referral arrangement must be kept.";

(2) in the next to last paragraph:

(a) by deleting, in the first sentence, the words "entered into by their representatives";

(b) by replacing, in the French text of the second sentence, the word "contrôler" with the word "surveiller".

51. Section 13.9 of the Policy Statement is amended by deleting the words "of Regulation 31-103" and the last sentence.

52. Section 13.10 of the Policy Statement is amended:

(1) by replacing the first and second paragraphs with the following:

"The disclosure of information to clients required under section 13.10 is intended to help clients make an informed decision about the referral arrangement and to assess any conflicts of interest. The disclosure should be provided to clients before or at the time the referred services are provided. A registered firm, and any registered individuals who are directly participating in the referral arrangement, should take reasonable steps to ensure that clients understand:

- which entity they are dealing with
- what they can expect that entity to provide to them
- the registrant's key responsibilities to them
- the limitations of the registrant's registration category

- any relevant terms and conditions imposed on the registrant's registration

- the extent of the referrer's financial interest in the referral arrangement, and

- the nature of any potential or actual conflict of interest that may arise from the referral arrangement";

(2) by replacing the two paragraphs under the title "**Division 5 Complaints**" with the following:

"Registered firms in Québec must comply with sections 168.1.1 to 168.1.3 of the Québec *Securities Act*, which has provided a substantially similar regime since 2002. The guidance in Division 5 if this Policy Statement applies to firms registered in any jurisdiction, including Québec.".

53. Section 13.15 of the Policy Statement is replaced with the following:

"**13.15. Handling complaints**

General duty to document and respond to complaints

Section 13.15 requires registered firms to document complaints, and to effectively and fairly respond to them. Regulation 31-103 does not indicate from whom a complaint must be received to be so documented, treated and responded to. We are of the view that registered firms should consider all complaints received from a client, a former client or a prospective client who has dealt with the registered firm (complainant).

Firms are reminded that they are required to maintain records which demonstrate compliance with complaint handling requirements under subsection 11.5(2)(m).

Complaint handling policies

An effective complaint system should deal with all formal and informal complaints or disputes in a timely and fair manner. To achieve the objective of handling complaints fairly, the firm's complaint system should include standards allowing for objective factual investigation and analysis of the matters specific to the complaint.

We take the view that registered firms should take a balanced approach to the gathering of facts that objectively considers the interests of

- the complainant

- the registered representative, and

- the firm

Registered firms should not limit their consideration and handling of complaints to those relating to possible violations of securities legislation.

Complaint monitoring

The firm's complaint handling policy should provide for specific procedures for reporting the complaints to superiors, in order to allow the detection of frequent and repetitive complaints made with respect to the same matter which may, on a cumulative basis, indicate a serious problem. Firms should take appropriate measures to deal with such problems as they arise.

Responding to complaints

Types of complaints

All complaints relating to one of the following matters should be responded to by the firm by providing an initial and substantive response, both in writing and within a reasonable time:

- a trading or advising activity
- a breach of client confidentiality
- theft, fraud, misappropriation or forgery
- misrepresentation
- an undisclosed or prohibited conflict of interest, or
- personal financial dealings with a client

Firms may determine that a complaint relating to matters other than the matters listed above is nevertheless of a sufficiently serious nature to be responded in the manner described below. This determination should be made, in all cases, by considering if an investor, acting reasonably, would expect a written response to their complaint.

Complaints relating to the matters listed above may be escalated to the dispute resolution service at the firm's expense under section 13.16.

When complaints are not made in writing

We would not expect that complaints relating to matters other than those listed above, when made verbally and when not otherwise considered serious based on an investor's reasonable expectation, would need to responded to in writing. However, we do expect that verbal complaints be given as much attention as written complaints. If a complaint is made verbally and is not clearly expressed, the firm may request the complainant to put the complaint in writing and we expect firms to offer reasonable assistance to do so.

Firms are entitled to expect the complainant to put unclear verbal issues into written format in order to try to resolve confusion about the nature of the issue. If the verbal complaint is clearly frivolous, we do not expect firms to offer assistance to put the complaint in writing. The firm may nonetheless ask the complainant to put the complaint in writing on his or her own.

Timeline for responding to complaints

Firms should

- promptly send an initial written response to a complainant: we consider that an initial response provided to the complainant within five business days of receipt of the complaint constitutes a reasonable delay
- provide a substantive response to all complaints relating to the matters listed above, indicating the firm's decision on the complaint

We encourage firms to resolve complaints relating to the matters listed above within 90 days.".

54. Section 13.16 of the Policy Statement is amended:

(1) by replacing, in the first paragraph, the words "If a registered firm receives a complaint about any of its trading or advising activities, it" with the words "A registered firm";

(2) by deleting the title of the second paragraph.

55. The first paragraph of section 14.2 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

56. The first paragraph of section 14.6 of the Policy Statement is amended by deleting the words "of Regulation 31-103".

57. The Policy Statement is amended by inserting, after section 14.10, the following:

"**14.12. Content and delivery of trade confirmation**

A dealer may enter into an outsourcing arrangement with an investment fund manager for the sending of trade confirmations to its clients. Guidance concerning outsourcing arrangements is provided in Part 11 of this Policy Statement. We expect that dealers will conduct due diligence and will document such arrangements. The extent of the due diligence that is reasonable where an investment fund manager sends trade confirmations will vary depending, among other things, on the extent to which the investment fund manager has an established record of providing such services to dealers. MFDA members should refer to supplemental guidance from their SRO with respect to such arrangements.".

58. Section 14.14 of the Policy Statement is replaced with the following:

"**14.14. Account statements**

Account statements generally

Section 14.14 requires registered dealers and advisers to deliver statements to clients at least once every three months. There is no prescribed form for these statements but they must contain the information in subsections 14.14(4) and (5). The types of transactions that must be disclosed in an account statement include any purchase, sale or transfer of securities, dividend or interest payment received or reinvested, any fee or charge, and any other account activity.

We expect all dealers and advisers to provide account statements. For example, an exempt market dealer should provide an account statement that contains the information prescribed for all transactions the exempt market dealer has entered into or arranged on a client's behalf.

Fair value of securities in account statements

IFRS valuation techniques

Section 14.14(5) provides that registered dealers and advisers must, except in limited circumstances, use fair value under IFRS for valuing securities in account statements. IFRS provides detailed guidance for determining the fair value of securities.

Registered dealers and advisers are expected to determine the fair values of securities in an active market as frequently as necessary to ensure that an up-to-date valuation is included in all account statements. In an active market, the fair value of listed equity securities, debt securities, commodity futures contracts, etc., is readily determinable. If a marketplace for the securities does not exist, or if the marketplace is inactive, IFRS provides that the fair value of a security is determined by a valuation technique using

observable inputs or, if there are no observable inputs, using unobservable inputs and assumptions.

Where the fair value of a security in an account statement is determined other than by reference to an active market, registered dealers and advisers should provide additional disclosure concerning the valuation methodology used, including an explanation that fair value is not market value and is not necessarily representative of the amount that the client will receive should they sell the security.

Reporting if value not determinable

There may be limited circumstances where a registered dealer or adviser concludes it is not able to determine a reliable fair value after using all reasonable efforts to apply IFRS valuation techniques. Subsection 14.14(5.1) provides that in these limited cases, the registrant may instead report in the account statement that the fair value of the security is not determinable. This is not a default option for securities that are difficult to value. It is a last recourse where, after applying IFRS valuation techniques, the registered dealer or adviser has concluded that the nature of the assumptions or estimations required do not allow for the result to be reliable.

Any securities whose fair value is shown as not determinable in an account statement should be assigned a value of zero for any performance calculations disclosed in marketing material prepared by or for a registered dealer or adviser.

When to report valuations

Where a registered dealer or adviser provides account statements more frequently than quarterly, it may choose not to update the valuation of a security whose fair value cannot be determined by reference to a active market. Instead, the statement may assign the same value to the security as in a previous statement that was delivered to the client no more than 3 months earlier. The statement must clearly indicate each instance where the valuation of a security has not been updated since a previous statement and the date of that previous statement. In any event, the client must receive a statement that includes an updated valuation of the security (or report that its value is not determinable) at the intervals prescribed in section 14.14.

Books and records requirements for fair value determinations

Registered dealers and advisers must maintain, as part of their books and records, adequate documentation to support:

- their valuations of securities whether they are determined by reference to an active market or otherwise

- their efforts to determine fair values for securities that are ultimately reported as not having a determinable value

We expect that a security shown in an account statement and also held in a registered dealer or adviser's inventory will be assigned the same value for both purposes.".

59. Appendix C of the Policy Statement is amended:

(1) by replacing the second paragraph with the following:

"An individual must not perform an activity that requires registration unless the individual has the education, training and experience that a reasonable person would consider necessary to perform the activity competently and, in the case of registered representatives, to understand the structure, features and risks of each security the individual recommends.

CCOs must also not perform an activity set out in section 5.2 unless they have the education, training and experience that a reasonable person would consider necessary to perform the activity competently.";

(2) in the first table:

(a) under "**Mutual fund dealer**":

(i) by replacing point 4 in the column entitled "**Dealing representative**" with the following:

"4. Advising representative requirements – portfolio manager or exempt from these under section 16.10(1)";

(ii) by replacing point 2 in the column entitled "**CCO**" with the following:

"2. CCO requirements – portfolio manager or exempt from these under section 16.9(2)";

(b) under "**Exempt market dealer**":

(i) by replacing point 3 in the column entitled "**Dealing representative**" with the following:

"3. Advising representative requirements – portfolio manager or exempt from these under section 16.10(1)";

(ii) by replacing point 3 in the column entitled "**CCO**" with the following:

"3. CCO requirements – portfolio manager or exempt from these under section 16.9(2)".

(3) in the second table:

(a) under "**Portfolio manager**":

(i) by replacing, in point 2 in the column entitled "**Advising representative**", the word "for" with the word "before";

(ii) in the column entitled "**CCO**":

(A) by replacing the introductory sentence of point 1 with the following:

"CSC except if the individual has the CFA or CIM designation, PDO, and CFA or a professional designation as a lawyer, CA, CGA, CMA, notary in Quebec or the equivalent in a foreign jurisdiction, and:";

(B) by replacing the introductory sentence of point 2 with the following:

"CSC except if the individual has the CFA or CIM designation, PDO and five years working at:";

(b) by replacing, under "**Investment fund manager**", the introductory sentence of point 1 with the following:

"CSC except if the individual has the CFA or CIM designation, PDO, and CFA or a professional designation as a lawyer, CA, CGA, CMA, notary in Quebec or the equivalent in a foreign jurisdiction, and:".