

## THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA

### HOUSEKEEPING AMENDMENTS TO MFDA REGULATORY INSTRUMENTS TO CONFORM TO REQUIREMENTS UNDER THE CLIENT FOCUSED REFORMS (CFR) AMENDMENTS TO NATIONAL INSTRUMENT 31-103 – *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS* (NI 31-103)

#### Background

On June 21, 2018, the Canadian Securities Administrators (CSA) published, for a 120-day comment period, proposed amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) to enhance the client-registrant relationship (CFR amendments). The comment period expired on October 19, 2018.

On October 3, 2019, following consideration of comments received, the CSA published the CFR amendments in final form. MFDA staff participated on the CSA Working Group which was responsible for the development of the CFR amendments. (see Bulletin #0795-P).

Requirements under MFDA regulatory instruments must, at a minimum, be consistent with those under securities legislation, and may exceed securities legislation requirements where to do so would be in the public interest.

We are publishing, on the same day, two types of changes to MFDA Rules and Policies. Public Comment Rule proposals (set out in a separate Notice), and Housekeeping changes (set out in this Notice). Housekeeping Rule amendments have been deemed to be approved and will be in effect on a date to be determined by the MFDA, which will align with the implementation dates of the CFR amendments. The Notice which addresses our Public Comment Rule proposals also includes CFR conforming changes to guidance set out under MFDA Staff Notices (MSN).

Attached as Appendix “A” to this Notice are housekeeping amendments to Policy No. 1 (*New Registrant Training and Supervision*) and the following MFDA Rules:

- Training and Supervision – (Rule 1.2.4);
- Misleading Communications – (Rule 1.2.5);
- Conflicts of Interest – (Rule 2.1.4);
- Borrowing From Clients – (Rule 2.1.5);
- Relationship Disclosure – (Rule 2.2.7);
- Referral Arrangements – (Rule 2.4.2);
- Transaction Fees or Charges – (Rule 2.4.4);
- Client Lending and Margin – (Rule 3.2.1);
- Requirement for Records – (Rule 5.1).

#### Nature of the Amendments

The proposed amendments to Policy No. 1, and the above-noted MFDA Rules are housekeeping in nature, and directly adopt the wording of similar requirements introduced through the CFR amendments to NI 31-103. In adopting the Housekeeping classification for these amendments, the MFDA has relied upon the Joint Rule Review Protocol (JRRP) for the MFDA, Part 3 (Classifying Rule Changes),

subsection 3(b)(vi), which provides, in relevant part, that housekeeping Rule changes include those that are reasonably necessary to conform MFDA Rules to applicable securities legislation, statutory or legal requirements.

### **Process**

The MFDA followed its established internal governance practices in approving the above-noted Housekeeping amendments and considered the need for consequential amendments. The above-noted Housekeeping amendments were reviewed at the February 6, 2020 meeting of the MFDA Policy Advisory Committee, the February 18, 2020 meeting of the Regulatory Issues Committee of the MFDA Board of Directors, and approved by the full MFDA Board of Directors at its February 27, 2020 meeting. The Board has determined that these amendments are in the public interest.

### **Exemption from Requirements under Securities Legislation**

The above-noted Housekeeping amendments involve Rules with which the MFDA, its Members or Approved Persons must comply in order to be exempted from a securities legislation requirement.

### **Conflict with Applicable Laws or Terms and Conditions of Recognition Order**

The above-noted Housekeeping amendments do not conflict with applicable laws or the Terms and Conditions of a Recognizing Regulator's Recognition Order.

### **Effective Date**

The above-noted Housekeeping amendments will become effective in accordance with the phased transition periods established by the CSA for the Client Focused Reforms.

**DM#778129**

April 12, 2018

## **Appendix “A”**

**MUTUAL FUND DEALERS ASSOCIATION OF CANADA/  
ASSOCIATION CANADIENNE DES COURTIERS DE FONDS MUTUELS**

**RULES**

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# MUTUAL FUND DEALERS ASSOCIATION OF CANADA

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## 1.2.3 Education, Training and Experience

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

## 1.2.4 Training and Supervision

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

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

~~(+)~~(3) **Continuing Education.**

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

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

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

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

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

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

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

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

(i) **Non-compliance.**

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

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

## **1.2.5 Misleading Communications ~~Business Titles Prohibited~~**

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

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

- (a) the proficiency, experience, qualifications, or category of registration of the Approved Person, or Member;
- (b) the nature of the client's or any other person's relationship, or potential relationship, with the Member or the Approved Person; or
- (c) the products or services provided, or to be provided, by the Member or the Approved Person.

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

- (a) if based partly or entirely on that Approved Person's sales activity or revenue generation, a title, designation, award, or recognition;
- (b) a corporate officer title, unless the Member has appointed that Approved Person to that corporate office pursuant to applicable corporate law; or
- (c) if the Approved Person's Member has not approved the use by that Approved Person of a title or designation, that title or designation.

### **1.1.1 Conflicts of Interest**

- ~~(a) — Each Member and Approved Person shall be aware of the possibility of conflicts of interest arising between the interests of the Member or Approved Person and the interests of the client. Where an Approved Person becomes aware of any conflict or potential conflict of interest, the Approved Person shall immediately disclose such conflict or potential conflict of interest to the Member.~~
- ~~(b) — In the event that such a conflict or potential conflict of interest arises, the Member and the Approved Person shall ensure that it is addressed by the exercise of responsible business judgment influenced only by the best interests of the client and in compliance with Rules 2.1.4(c) and (d).~~

~~(c) Any conflict or potential conflict of interest that arises as referred to in Rule 2.1.4(a) shall be immediately disclosed in writing to the client by the Member, or by the Approved Person as the Member directs, prior to the Member or Approved Person proceeding with the proposed transaction giving rise to the conflict or potential conflict of interest.~~

~~(d) Each Member shall develop and maintain written policies and procedures to ensure compliance with Rules 2.1.4(a), (b) and (c).~~

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

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

(i) between the Member and the client, and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **2.1.5 Borrowing From Clients**

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

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

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

### **2.2.7 Relationship Disclosure**

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



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

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

(a) describing the nature of the advisory relationship;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### 2.2.7(2)

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

- (a) purchases or sells an investment for the client; or
- (b) advises the client to purchase, sell, or hold an investment.

#### ~~1.1.2~~ 2.4.2 **Referral Arrangements**

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

- (i) "client" includes a prospective client;
- (ii) "referral arrangement" means any arrangement in which a Member or Approved Person agrees to provide pay or receive a referral fee to or from another person or company; and
- (iii) "referral fee" means any benefit provided form of compensation, direct or indirect, paid for the referral of a client to or from a Member or Approved Person.

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

- (i) before a client is referred by or to the Member or Approved Person, the terms of the referral arrangement are set out in a written agreement between the Member and the person or company;
- (ii) the Member records all referral fees; and
- (iii) the Member ~~or Approved Person~~ ensures that the information prescribed under Rule 2.4.2(d)(i) is provided to the client in writing before the party receiving the referral either opens an account for the client or provides services to the client.

#### 2.4.4 Transaction Fees or Charges

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

- (a) charges in respect of the purchase or sale of a security or a reasonable estimate if the actual amount of the charges is not known to the Member at the time of disclosure;
- (b) in the case of a purchase of a security to which deferred charges apply, that the client might be required to pay a deferred sales charge on the subsequent sale of the security and the fee schedule that will apply; ~~and~~
- (c) whether the Member will receive trailing commissions in respect of the security;
- (d) whether there are any investment fund management expense fees or other ongoing fees that the client may incur in connection with the security; and
- (e) provide a description of the restrictions on the client's ability to liquidate or resell a security.

### 3.2.1 Client Lending and Margin

No Member or Approved Person shall lend money or extend credit to a client, ~~or permit the purchase of securities by a client on margin, or provide a guarantee in relation to a loan of money, securities or any other assets to a client, unless any of the following apply: except as provided for in Rule 3.2.3.~~

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

- (i) an Approved Person of the Member, or
- (ii) a director, officer, or employee of the Member;

(b) in the case of an Approved Person:

- (i) the client and the Approved Person are related to each other for the purposes of the *Income Tax Act* (Canada); and
- (ii) the Approved Person has obtained the written approval of their Member to lend the money, or extend the credit;

(c) the Member is advancing funds to a client in connection with the redemption of mutual fund securities where: ~~3.2.3 Advancing Mutual Fund Redemption Proceeds~~

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

- ~~(i) (a) the Member has received prior confirmation of the redemption order from the issuer of the securities;~~
- ~~(ii) (b) the redemption proceeds to be received (excluding any fees or commissions) are equal to or greater than the amount of funds or credit to be provided;~~
- ~~(iii) (c) the client has authorized payment to and retention by the Member of redemption proceeds;~~
- ~~(iv) (d) the Member maintains a copy of the confirmation of the redemption order and the client's authorization; and~~
- ~~(v) (e) the Member is designated as being in Level 2, 3 or 4 for the purposes of Rule 3.1.1.~~

### ~~1.2~~ 5.1 **REQUIREMENT FOR RECORDS**

Every Member shall keep such books, records and other documents as are necessary for the proper recording of its business transactions and financial affairs and the transactions that it executes on behalf of others and shall keep such other books, records and documents

as may be otherwise required by the Corporation. Such books and records shall contain as a minimum the following:

- (a) blotters, or other records, containing an itemized daily record of:
  - (i) all purchases and sales of securities;
  - (ii) all receipts and deliveries of securities, including certificate numbers;
  - (iii) all receipts and disbursements of cash;
  - (iv) all other debits and credits, the account for which each transaction was effected;
  - (v) the name of the securities;
  - (vi) the class or designation of the securities;
  - (vii) the number or value of the securities;
  - (viii) the unit and aggregate purchase or sale price; and
  - (ix) the trade date and the name or other designation of the person from whom the securities were purchased or received or to whom they were sold or delivered;
- (b) an adequate record of each order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. Such record shall show:
  - (i) the terms and conditions of the order or instructions and of any modification or cancellation thereof;
  - (ii) the account for which entered or received;
  - (iii) the time of entry or receipt, the price at which executed and, to the extent feasible, the time of execution or cancellation; and
  - (iv) evidence that the client was informed of all fees and charges in accordance with Rule 2.4.4
- (c) where the order or instruction is placed by an individual other than the person in whose name the account is operated, or an individual duly authorized to place orders or instructions on behalf of a client that is a company, the name, sales number or designation or the individual placing the order or instruction shall be recorded;
- (d) copies of confirmations of all purchases and sales of securities and copies of all other debits and credits for securities, cash and other items for the account of clients;

- (e) a record of the proof of cash balances of all ledger accounts in the form of trial balances and a record of calculation of minimum capital, adjusted liabilities and risk adjusted capital required;
- (f) all cheque books, bank statements, cancelled cheques and cash reconciliations;
- (g) all bills receivable or payable (or copies thereof), paid or unpaid, relating to the business of the Member;
- (h) all limited trading authorizations in respect of any account, and copies of resolutions empowering an agent to act on behalf of a corporation;
- (i) all written agreements (or copies thereof) entered into by such Member relating to their business as such, including leveraging documentation, disclosure materials and agreements relating to any account; and
- (j) all documentation relating to an advance of funds or extension of credit to or on behalf of a client, directly or indirectly, in connection with the receipt of funds on the redemption of mutual fund securities, including the prior written confirmation referred to in Rule 3.2.3;
- (k) records which demonstrate compliance with Rules 2.2.1 (Know-Your-Client), 2.2.5 (Know-Your-Product), and 2.2.6 (suitability determination) requirements;
- (l) records which demonstrate compliance with Rule 2.1.4 (Conflicts of Interest);
- (m) records which demonstrate compliance with Rule 1.2.5 (Misleading Communications);
- (n) records which demonstrate compliance with complaint handling requirements, prescribed under Rule 2.11, and Policy No. 3;
- (o) records which document correspondence with clients;
- (p) records which document compliance and supervision actions taken by the firm;
- (q) records which document training prescribed under Rule 1.2.4, Policy No. 1, and Policy No. 9; and
- (r) records which document:
  - (i) the Member's sales practices, compensation arrangements, and incentive practices; and
  - (j) (ii) other compensation arrangements and incentive practices from which the Member or its Approved Persons or any affiliate or associate of the Member benefit .

DM#777451



## **MFDA POLICY NO. 1**

### **NEW REGISTRANT TRAINING AND SUPERVISION**

#### **Introduction**

This Policy provides guidance on how to comply with MFDA Rule 1.2.4 which requires all Members to develop and document a training and supervision program for their newly-registered salespersons.

Members must ensure that their training programs also include, without limitation, Approved Person training on requirements in the areas of: Know-Your-Client, Know-Your-Product, making a suitability determination, and identifying/addressing conflicts of interest.

With respect to supervision, this Policy sets out standards for new registrants that are in addition to the supervision requirements set out in MFDA Policy No.2 entitled “Minimum Standards for Account Supervision”, that apply to all salespersons.

#### **Training Program**

MFDA Rule 1.2.4 requires all newly-registered salespersons to complete a training program within 90 days of being registered with the relevant provincial securities commission.

A Member's training program should cover, at a minimum, the following topics:

General Knowledge: provide an overview of the Member and the industry and cover the salesperson's role, including the range of permitted activities under the salesperson's license.

Product Knowledge: provide a detailed orientation of the product lines offered by the Member.

Advising the Client: review the practical skills required to obtain and interpret know-your-client information to ensure “suitability” obligations have been met and appropriate asset allocation is achieved for clients.

Administration: provide an understanding of internal systems and technology, processes and controls and record keeping.

Sales Process: review client communications, including sales skills and marketing. Review disclosure requirements, transaction documentation requirements, compensation policies and approval processes.

Ethics and Standards of Conduct: provide an understanding of acceptable and non-acceptable business practices, review compliance policies, procedures and regulatory requirements, including sales practice procedures required under securities legislation, including National Instrument 81-105.

For salespersons transferring from one Member to another, it will be incumbent upon the receiving Member to ensure that the training program was completed with the prior Member.

## **Supervision Policy**

MFDA Rule 1.2.4 requires that all newly registered salespersons be subject to concurrent supervision by the Member for a period of 6 months, commencing on the date of initial registration. Such supervision should include at a minimum:

### The first 90 day period:

- a) all new accounts must be pre-approved by the Branch Manager prior to any trade being processed in the account;
- b) all trading activity must be reviewed and signed off by the Branch Manager no later than one business day following the trade date; and
- c) all leveraged trades where leveraging was recommended by the Member's salesperson must be reviewed by the Branch Manager prior to trade execution.

### The subsequent 90 day period:

- a) all new accounts must be pre-approved by the Branch Manager prior to or shortly after (within 1 business day) any trade being processed in the account;
- b) each month, the Branch Manager must review the greater of:
  - (i) 5 of the client files that were handled by the salesperson in the preceding one month, and
  - (ii) 10% of such client files,provided that if the number of such client files is less than 5, then the Branch Manager must review the actual number of such client files;
- c) on a daily basis, the Branch Manager must review the greater of:
  - (i) 5 of the trades conducted by the salesperson, and
  - (ii) 10% of such trades,provided that if the number of such trades is less than 5, then the Branch Manager must review the actual number of such trades, (high-risk trades, are to be given particular attention); and
- d) all leveraged trades where leveraging was recommended by the Member's salesperson must be reviewed by the Branch Manager prior to trade execution.

In reviewing client files, the Branch Manager should ensure that: the proper documentation is contained in the files, including a New Account Application Form; all information is complete, such as the know-your-client information; and look for any unusual information, such as signed blank forms. If the New Account Application Form does not include know-your-client information, this must be documented on a separate form.



All supervisory activities with regard to newly-registered salespersons should be documented and kept on file at the branch location. Refer to the report attached to this Policy which is to be completed by the relevant supervisor at the end of the training and supervision program. Further, any compliance issues that required action on the part of the Branch Manager or other compliance staff must be documented and kept on file.

It is expected that when a salesperson is unsuccessful in meeting a Member's expectations, the supervision and training period will be extended accordingly until such time as the Member is satisfied that the salesperson no longer needs to be subject to internal supervision. Any extensions should be documented accordingly.

**DM#706175v2**

**CONFIRMATION OF COMPLETION OF NEW REGISTRANT  
TRAINING AND SUPERVISION PROGRAM**

I \_\_\_\_\_ hereby certify that I have supervised \_\_\_\_\_  
(branch manager) (salesperson's name)  
from the period \_\_\_\_/\_\_\_\_/\_\_\_\_ to \_\_\_\_/\_\_\_\_/\_\_\_\_ in accordance with the requirements in  
(dd /mm/yy) (dd /mm/yy)

MFDA Rule 1.2.4 and the MFDA New Registrant Training and Supervision Policy and confirm that the following information is true and correct to the best of my knowledge:

1. The salesperson designated above has completed the firm's training program within 90 days of being registered with the applicable provincial securities commission.
2. I (or an alternate) have approved all new accounts opened by the above salesperson prior to a first trade in such accounts within his/her first 90 days of registration.
3. I (or an alternate) have reviewed and approved all trading activity by the salesperson within his/her first 90 days of registration.
4. I have reviewed all leveraged trades executed through the above salesperson where leveraging was recommended by the above salesperson prior to completion of the transaction.
5. For each month for the 90 day period following the salesperson's first 90 days of registration I have reviewed the greater of (i) 5 of the salesperson's client files and (ii) 10 percent of the salesperson's client files; or if the number of the salesperson's client files is less than 5, I have reviewed the actual number of such client files.
6. On a daily basis for the 90 day period following the salesperson's first 90 days of registration I have reviewed the greater of (i) 5 of the salesperson's trades and (ii) 10 percent of the salesperson's trades; or if the number of the salesperson's trades is less than 5, I have reviewed the actual number of the salesperson's trades.
7. Any client complaints concerning the above salesperson have been reviewed and discussed with the above salesperson and written documentation has been maintained in the file for any compliance issues that required action.

IF ITEM 7 IS APPLICABLE, COMPLETE ITEM 8 BY CROSSING OUT THE PARAGRAPH THAT DOES NOT APPLY:

8. (i) As a result of the complaints received, the above salesperson's supervisory period has been extended by \_\_\_\_months; or  
(ii) The complaints were resolved to my satisfaction and it was not necessary to extend the above salesperson's supervisory period.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Branch Manager

\_\_\_\_\_  
Name of Branch Manager

\_\_\_\_\_  
Name of Member