

RULE 1300
SUPERVISION OF ACCOUNTS

1300.1.

Identity and Creditworthiness

- (a) Each Dealer Member shall use due diligence to learn and remain informed of the essential facts relative to every customer and to every order or account accepted.
- (b) When opening an initial account for a corporation or similar entity, the Dealer Member shall:
 - (i) ascertain the identity of any [individual](#) who is the beneficial owner of, or exercises direct or indirect [control](#) or direction over, more than 10% of the corporation or similar entity, including the name, address, citizenship, occupation and employer of each such beneficial owner, and whether any such beneficial owner is an insider or controlling shareholder of a publicly traded corporation or similar entity; and
 - (ii) as soon as is practicable after opening the account, and in any case no later than six months after the opening of the account, verify the identity of each [individual](#) identified in (i) using such methods as enable the Dealer Member to form a reasonable belief that it knows the true identity of each [individual](#) and that are in compliance with any applicable legislation and regulations of the Government of Canada or any province.
- (c) Subsection (b) does not apply to:
 - (i) a corporation or similar entity that is or is an [affiliate](#) of a bank, trust or loan company, credit union, caisse populaire, insurance company, mutual fund, mutual fund management company, pension fund, [securities dealer](#) or broker, [investment](#) manager or similar financial institution subject to a satisfactory regulatory regime in the country in which it is located
 - (ii) a corporation or similar entity whose securities are publicly traded or an [affiliate](#) thereof.
- (d) The Corporation may, at its discretion, direct Dealer Members that the exemption in subsection (c) does not apply to some or all types of financial institutions located in a particular country.
- (e) When opening an initial account for a trust, a Dealer Member shall:
 - (i) ascertain the identity of the settlor of the trust and, as far as is reasonable, of any known beneficiaries of more than 10% of the trust, including the name, address, citizenship, occupation and employer of each such settlor and beneficiary and whether any is an insider or controlling shareholder of a publicly traded corporation or similar entity.
 - (ii) as soon as is practicable after opening the account, and in any case no later than six months after the opening of the account, verify the identity of each [individual](#) identified in (i) using such methods as enable the Dealer Member to form a reasonable belief that it knows the true identity of each [individual](#) and that are in compliance with any applicable legislation and regulations of the Government of Canada or any province.
- (f) Subsection (e) does not apply to a testamentary trust or a trust whose units are publicly traded.
- (g) If a Dealer Member, on inquiry, is unable to obtain the information required under subsections (b)(i) and (e)(i), the Dealer Member shall not open the account.

- (h) If a Dealer Member is unable to verify the identities of individuals as required under subsections (b)(ii) and (e)(ii) within six months of opening the account, the Dealer Member shall restrict the account to liquidating trades and transfers, payments or deliveries out of funds or securities only until such time as the verification is completed.
- (i) No Dealer Member shall open or maintain an account for a shell bank.
- (j) For the purposes of section (i) a shell bank is a bank that does not have a physical presence in any country.
- (k) Subsection (i) does not apply to a bank which is an [affiliate](#) of a bank, loan or trust company, credit union, other depository institution that maintains a physical presence in Canada or a foreign country in which the affiliated bank, loan or trust company, credit union, other depository institution is subject to supervision by a banking or similar regulatory authority.
- (l) Any Dealer Member having an account for a corporation, similar entity or trust other than those exempt under subsections (c) and (f) and which does not have the information regarding the account required in subsections (b)(i) and (e)(i) at the date of implementation of those subsections shall obtain the information within one year from date of implementation of subsections (b) and (e).
- (m) If the Dealer Member does not or cannot obtain the information required under subsection (l) the Dealer Member shall restrict the account to liquidating trades and transfers, payments or deliveries out of funds or securities until such time as the required information has been obtained.
- (n) Dealer Members must maintain records of all information obtained and verification procedures conducted under this Rule 1300.1 in a form accessible to the Corporation for a period of five years after the closing of the account to which they relate.

Business Conduct

- (o) Each Dealer Member shall use due diligence to ensure that the acceptance of any order for any account is within the bounds of good business practice.

Suitability determination required when accepting order

- (p) Subject to Rules 1300.1(t), 1300.1(u) and 1300.1(v), each Dealer Member shall use due diligence to ensure that the acceptance of any order from a client is suitable for such client based on factors including the client's current financial situation, [investment](#) knowledge, [investment](#) objectives and time horizon, risk tolerance and the account or accounts' current investment portfolio composition and risk level. If the order received from a client is not suitable, the client must, at a minimum, be advised against proceeding with the order.

Suitability determination required when recommendation provided

- (q) Each Dealer Member, when recommending to a client the purchase, sale, exchange or holding of any security, shall use due diligence to ensure that the recommendation is suitable for such client based on factors including the client's current financial situation, [investment](#) knowledge, [investment](#) objectives and time horizon, risk tolerance and the account or accounts' current investment portfolio composition and risk level.

Suitability determination required for account positions held when certain events occur

- (r) Each Dealer Member shall, subject to Rules 1300.1(t), 1300.1(u) and 1300.1(v), use due diligence to ensure that the positions held in a client's account or accounts are suitable for such client based on factors including the client's current financial situation, [investment](#) knowledge, [investment](#)

objectives and time horizon, risk tolerance and the account or account(s)' current investment portfolio composition and risk level whenever one or more of the following trigger events occurs:

- (i) Securities are received into the client's account by way of deposit or transfer; or
- (ii) There is a change in the registered representative or portfolio manager responsible for the account; or
- (iii) There has been a material change to the client's life circumstances or objectives that has resulted in revisions to the client's "know your client" information as maintained by the Dealer Member.

Suitability of investments in client accounts

- (s) To comply with the requirements under Rules 1300.1(p), 1300.1(q) and 1300.1(r), the Dealer Member must use due diligence to ensure that:
 - (i) The suitability of all positions in the client's account is reviewed whenever a suitability determination is required; and
 - (ii) The client receives appropriate advice in response to the suitability review that has been conducted.

Exemptions from the suitability assessment requirements

- (t) Each Dealer Member that has applied for and received approval from the Corporation pursuant to Rule 1300.1(w), is not required to comply with Rules 1300.1(p), 1300.1(r) and 1300.1(s), when accepting orders from a client where no recommendation is provided, to make a determination that the order is suitable for such client.
- (u) Each Dealer Member that executes a trade on the instructions of another Dealer Member, [portfolio manager](#), [investment](#) counsel, limited market dealer, bank, trust company or insurer, pursuant to Section I.3 of Rule 2700 is not required to comply with Rule 1300.1(p).
- (v) A Dealer Member is not required to comply with rules 1300.1(p), 1300.1(r) and 1300.1(s), when accepting or transmitting orders for a client who has been provided with direct electronic access within the meaning of National Instrument 23-103 *Electronic Trading and Direct Electronic Access to Marketplaces*, if the Dealer Member:
 - (i) Determines that the direct electronic access service offering is suitable for the client;
 - (ii) Does not provide recommendations to any Retail Customers who have been provided with direct electronic access; and
 - (iii) Complies with the Universal Market Integrity Rule requirements applicable to the direct electronic access service offering and the requirements of NI 23-103 *Electronic Trading and Direct Electronic Access to Marketplaces*.

Corporation approval

- (w) The Corporation, in its discretion, shall only grant such approval where the Corporation is satisfied that the Dealer Member will comply with the policies and procedures outlined in Rule 3200. The application for approval shall be accompanied by a copy of the policies and procedures of the Dealer Member. Following such approval, any material changes in the policies and procedures of the Dealer Member shall promptly be submitted to the Corporation.

1300.2.

- (a) A Dealer Member must designate a [Supervisor](#) to be responsible for the opening of new accounts and for establishing and maintaining procedures acceptable to the Corporation for account supervision to ensure that the handling of client business is within the bounds of ethical conduct, consistent with just and equitable principles of trade and not detrimental to the interests of the securities industry. As part of this supervision each new account must be opened pursuant to a new account form which includes the applicable information required by Form No. 2 for [Retail Customer](#) accounts, [Institutional Customer](#) accounts and for accounts exempt from suitability reviews.
- (b) Where a Dealer Member conducts more than one of retail business, institutional business and suitability-exempt business under Rules 1300.1(t) and 3200.B, the Dealer Member may designate separate Supervisors for each type of business.
- (c) The [Supervisor](#) designated under this section or another [Supervisor](#) assigned the responsibility for doing so in the policies and procedures of the Dealer Member must approve and record the approval of the opening of an account prior to or promptly after the completion of any transaction.

Discretionary and Managed Accounts

1300.3. In this Rule 1300 unless the context otherwise requires, the expression:

“**discretionary account**” means an account of a customer other than a [managed account](#) in respect of which a Dealer Member or any [person](#) acting on behalf of the Dealer Member exercises any discretionary authority in trading by or for such account, provided that an account shall not be considered to be a discretionary account for the sole reason that discretion is exercised as to the price at which or time when an order given by a customer for the purchase or sale of a definite amount of a specified security, option, futures contract or futures contract option shall be executed;

“**futures contracts managed account**” means a [managed account](#) which includes only investments in commodity futures contracts or commodity futures contract options;

“**investment**” includes a commodity futures contract and a commodity futures contract option;

“**managed account**” means any account solicited by a Dealer Member in which the [investment](#) decisions are made on a continuing basis by the Dealer Member or by a third party hired by the Dealer Member;”

“**portfolio manager**” means a [Registered Representative](#) exercising discretionary authority over a [managed account](#);

“**responsible person**” means a partner, [Director](#), [Officer](#), employee or agent of a Dealer Member who:

- (a) exercises discretionary authority over the account of a client or approves discretionary orders for an account when exercising such discretion or giving such approval pursuant to Rule 1300.4, or
- (b) participates in the formulation of, or has prior access information regarding [investment](#) decisions made on behalf of or advice given to a [managed account](#)

but does not include a sub-adviser under Rule 1300.7(a)(ii);

1300.4. A [Registered Representative](#) may not exercise discretionary authority over a customer account unless:

- (a) the Dealer Member has designated a [Supervisor](#) or Supervisors to be responsible for discretionary accounts;
- (b) the customer has given prior written authorization in compliance with in compliance with Rule 1300.5;
- (c) a [Supervisor](#) designated under subsection (a) has approved the account as a [discretionary account](#) and recorded that approval;
- (d) the [Registered Representative](#) authorized to effect discretionary trades for the account has actively dealt in, advised on or performed analysis for a period of two years with respect to all types of products which are to be traded on a discretionary basis; and
- (e) the account is maintained at the Dealer Member of the [Registered Representative](#).

1300.5. The prior written authorization provided for by clause (a) of Rule 1300.4 must:

- (a) define the extent of the discretionary authority which has been given to the Dealer Member;
- (b) except for a [managed account](#), have a term of no more than twelve months, unless the Dealer Member has satisfied the Corporation that a longer term is appropriate and the customer is aware of such longer term;
- (c) except for a [managed account](#), only be renewable in writing;
- (d) only be terminated by the customer by notice in writing, effective on receipt of the notice by the Dealer Member except with respect to transactions entered into prior to the receipt; and
- (e) only be terminated by the Dealer Member by notice in writing, effective not less than 30 days from the date of delivery to the customer.

1300.6. In addition to any other account supervision requirements under the [Rules](#), the [Designated Supervisor](#) must review at least monthly the financial performance of each [discretionary account](#) other than a [managed account](#), including a review to determine whether any [person](#) permitted to effect discretionary trades for the account should continue to do so. The [Designated Supervisor](#) may not delegate the conduct of the review to any other [person](#).

1300.7. A Dealer Member may not exercise any discretionary authority with respect to a [managed account](#) unless:

- (a) the [individual](#) who is responsible for the management of the account is:
 - (i) a [portfolio manager](#); or
 - (ii) a sub-adviser with which the Dealer Member has entered into a written sub-adviser agreement, provided that

- A. the sub-adviser is an [individual](#) or firm registered in the jurisdiction in which it resides, in a category of registration that permits the [person](#) or company to provide discretionary portfolio management services or as a broker or [investment](#) dealer active as a [portfolio manager](#); and
 - B. the Dealer Member has determined that the sub-adviser is subject to legislation or regulations containing conflict of interest provisions at least equivalent to [Rules](#) 1300.18 and 1300.19 or has entered into an agreement with the sub-adviser that the sub-adviser will comply with [Rules](#) 1300.18 and 1300.19.
- (b) the client has signed a [managed account](#) agreement in accordance with Rule 1300.8
 - (c) the Supervisor designated under Rule 1300.15(b) or in the Dealer Member's policies and procedures has specifically approved the account as a [managed account](#) and the approval has been recorded in writing;
 - (d) the Dealer Member has provided to the accountholder a copy of its policy ensuring fair allocation of [investment](#) opportunities.

1300.8. The [managed account](#) agreement provided for by clause (b) of Rule 1300.7 must:

- (a) describe the [investment](#) objectives and risk tolerance of the customer with respect to the [managed account](#) or accounts;
- (b) where permitted by the Dealer Member, describe any constraints imposed by customer on investments to be made in the [managed account](#) or accounts;
- (c) only be terminated by the customer by notice in writing, effective on receipt by the Dealer Member except with respect to transactions entered into prior to the receipt; and
- (d) only be terminated by the Dealer Member by notice in writing, effective not less than 30 days from the date of delivery of the notice to the customer.

1300.9. Repealed

1300.10. Repealed

1300.11. Repealed.

1300.12. Repealed.

1300.13. Repealed.

1300.14. Repealed.

1300.15. A Dealer Member that has managed accounts or futures contracts managed accounts must establish and maintain a system acceptable to the Corporation to supervise the activities of those responsible for the management of such accounts under Rule 1300.7. The system must be reasonably designed to achieve compliance with the [Rules](#) and Forms of the Corporation. A Dealer Member firm's supervisory system must provide, at a minimum, for the following:

- (a) the establishment and maintenance of written procedures, including:
 - (i) procedures designed to disclose when a [responsible person](#) has contravened Rules 1300.18 or 1300.19;
 - (ii) procedures to ensure fairness in the allocation of [investment](#) opportunities among its managed accounts;

- (b) the designation of one or more Supervisors specifically responsible for the supervision of managed accounts.
- (c) direct supervision of any [Registered Representative](#) providing discretionary management to managed accounts who has less than two years experience providing such discretionary management, including at least one year managing on a discretionary basis more than \$5 million in assets, by
 - (i) a [Registered Representative](#) at the Dealer Member or another Dealer Member who is authorized to provide discretionary management to managed accounts and who is not in the period of supervision, or
 - (ii) a [person](#) registered as an advisor under Canadian securities legislation who has entered into a contract with the Dealer Member to provide the supervision.

The period of experience includes any period spent providing discretionary management as a registered advisor under Canadian securities legislation or while employed by a government-regulated institution.

- (d) in addition to any other account supervision requirements under the [Rules](#), a review by the [Designated Supervisor](#) with respect to each [managed account](#), to be conducted at least quarterly, to ensure that the [investment](#) objectives of the client are being diligently pursued and that the [managed account](#) or [futures contracts managed account](#) is being conducted in accordance with the [Rules](#). The review may be conducted at an aggregate level for managed accounts for which key [investment](#) decisions are made centrally and applied across a number of managed accounts, subject to minor variations to allow for client-directed constraints and the timing of client cash flows into the [managed account](#).
- (e) the establishment of a committee, including at least the [Designated Supervisor](#) of managed accounts and the Chief Compliance Officer, that shall review at least annually the supervisory system and procedures for managed accounts and recommend to senior management any action necessary to achieve the Dealer Member's compliance with applicable securities legislation and with the [Rules](#) and Forms of the Corporation.

1300.16.A Dealer Member may charge a client directly for services rendered to a [managed account](#) but, except with the written agreement of the client, the charge may not be based on the volume or value of transactions initiated for the account or be contingent upon profits or performance.

1300.17.A Dealer Member may not pay remuneration to anyone managing a [managed account](#) that is computed on the basis of the value or volume of transactions in the account.

1300.18.No Dealer Member or [responsible person](#) shall trade for his or her or the Dealer Member's own account, or knowingly permit or arrange for any associate or [affiliate](#) to trade, in reliance upon information as to trades made or to be made for any discretionary or [managed account](#).

1300.19.No Dealer Member or [responsible person](#) shall, without the written consent of the client, knowingly cause any [managed account](#) to:

- (a) invest in the securities of, or a futures contract or option that is based on the securities of, the Dealer Member or an issuer that is related or connected to the Dealer Member;
- (b) invest in the securities of any issuer, or a futures contract or option that is based on the securities of an issuer, of which a [responsible person](#) is an officer or [director](#), and no such [investment](#) shall be made even with the written consent of the client unless such office or directorship shall have been disclosed to the client;
- (c) invest in new or secondary issues underwritten by the Dealer Member;

- (d) purchase or sell the securities of any issuer, or a futures contract or option that is based on the securities of an issuer, from or to the account of a [responsible person](#), or from or to the account of an associate of a [responsible person](#); or
- (e) make a loan to a [responsible person](#) or to an associate of a [responsible person](#).

A Dealer Member or [related company](#) or a partner, [Director](#), [Officer](#), employee or associate of either of them shall be deemed not to have breached any provision of this Rule 1300.19 in connection with any trade or activity if conducted in compliance with any securities legislation or rule, policy, directive or order of any [securities commission](#) which specifically applies to the trade or activity.

1300.20. Where [investment](#) decisions are made centrally and applied across a number of managed accounts, Rule 29.3A does not apply to the managed accounts of partners, Directors, Officers, Approved Persons, employees or agents of the Dealer Member who participate on the same basis as client accounts in the implementation of those decisions.

1300.21. Except as specifically permitted in the [Rules](#) or Rulings, a Dealer Member may not charge a customer a fee that is contingent upon the profit or performance of the customer's account.

