

RULE 2500

MINIMUM STANDARDS FOR RETAIL CUSTOMER ACCOUNT SUPERVISION

Introduction

This Rule establishes minimum industry standards for [Retail Customer](#) account supervision.

These standards represent the minimum requirements necessary to ensure that a Dealer Member has in place procedures to properly supervise [Retail Customer](#) account activity. The Rule does not:

- (a) relieve Dealer Members from complying with specific SRO by-laws, rules, regulations and policies and securities legislation applicable to particular trades or accounts; or
- (b) preclude Dealer Members from establishing a higher standard of supervision and in certain situations a higher standard may be necessary to ensure proper supervision.

Many of the standards in this Rule are taken from existing [Rules](#) of the Corporation and of other self-regulatory organizations. Securities legislation was generally not canvassed. To ensure that a Dealer Member has met all applicable standards, Dealer Members are required to know and comply with Corporation and other [self-regulatory organization](#) by-laws, rules, regulations and policies and applicable securities legislation which may apply in any given circumstance.

The following principles have been used to develop these minimum standards:

- (a) The term "review" in this Rule has been used to mean a preliminary screening to detect items for further investigation or an examination of unusual trading activity or both. It does not mean that every trade meeting the selection process of this Rule must be investigated. The reviewer must use reasonable judgement in selecting the items for further investigation.
- (b) While Dealer Members must provide the necessary resources and qualified Supervisors to meet these standards, the standards do not specify what the resources must be. The Dealer Member must determine what resources and Supervisors are necessary based on the nature of the Dealer Member's business.
- (c) The compliance with the know-your-client rule and suitability of [investment](#) requirements is primarily the responsibility of the [Registered Representative](#). The supervisory standards in this Rule relating to know-your-client and suitability are intended to provide Supervisors with guidelines on how to monitor the handling of these responsibilities by the [Registered Representative](#).

I. Establishing and Maintaining Procedures, Delegation and Education

Introduction

Effective self-regulation begins with the Dealer Member establishing and maintaining a supervisory environment which fosters the business objectives of the Dealer Member and enables the Dealer Member to meet regulatory requirements and its obligations to its customers. To that end a Dealer Member must establish and maintain procedures which are supervised by qualified individuals. A major aspect of self-regulation is the ongoing education of staff in all areas of business conduct.

A. Establishing Procedures

1. A Dealer Member must:

- (a) appoint Supervisors and supervisory personnel who have the necessary knowledge of industry regulations and Dealer Member policy to properly perform their duties;
 - (b) maintain written policies and procedures to document supervision requirements; and
 - (c) supply written instructions to all Supervisors and alternates to advise them on what is expected of them.
2. A Dealer Member must have a procedure establishing the approval process for new policies and procedures. Those having a significant impact on the Dealer Member's compliance system should be approved by senior management.

B. Maintaining Procedures

1. A Dealer Member must have a reasonable process to review the efficacy of its business conduct procedures and practices and rectify any deficiencies identified.

C. Risk-based procedures

1. A Dealer Member may select accounts for review on the basis of risk-based procedures, taking into account factors such as the size of account, nature of the trading, products traded, volume of activity, commissions generated or Approved Persons advising the customer.
2. A Dealer Member must document the basis used for selecting accounts for review in its policies and procedures.
3. The procedures for selecting accounts for review must be applied consistently across retail accounts.
4. At a minimum, a Dealer Member must conduct enhanced supervision of trading by Approved Persons who have had a history of questionable conduct. Evidence of such conduct can include trading activity that frequently raises questions in account reviews, frequent or serious client complaints, regulatory investigations, frequent account credit problems or failure to take appropriate remedial action on account problems identified.

D. Delegation

1. Supervisors may delegate tasks but not responsibility.
2. A Dealer Member must advise Supervisors of those specific functions that cannot be delegated.
3. The [Supervisor](#) delegating the task must ensure that these tasks are being performed adequately and that exceptions are brought to his or her attention.
4. Those to whom tasks are delegated must have the qualifications to perform them and should be advised in writing what is expected.

E. Education

1. A Dealer Member must provide all sales and supervisory personnel with the current sales practices and policies relevant to their functions. The provision can be done through access to electronic systems on which the policies and procedures are maintained, in which case personnel must be trained on use of the systems. A Dealer Member should obtain and record acknowledgements from all sales and supervisory personnel that they have read and understood the policies and procedures relevant to their responsibilities.

2. A Dealer Member must provide introductory and continuing education to all Approved Persons on the Dealer Member's policies and procedures and any relevant changes to them.
3. A Dealer Member must communicate information contained in compliance-related bulletins from the Corporation and other SROs and Regulatory Organizations to all sales and other Approved Persons to whom it is relevant. A Dealer Member must maintain procedures relating to the method and timing of distribution of compliance-related bulletins.

F. Records

1. A Dealer Member must maintain records of supervisory review for seven years.
2. A Dealer Member must maintain the records in a manner that permits them to be provided to the Corporation promptly for the first two years after its creation and within a reasonable time thereafter.
3. The evidence must record who conducted the review and when, inquiries made, replies received and actions taken.

II. Opening New Accounts

Introduction

To comply with the "Know-Your-Client" rule each Dealer Member must establish procedures to maintain accurate and complete information on each client. The first step towards compliance with this rule is completing proper documentation when opening new accounts. Accurate completion of the documentation when opening a new account allows both the [Registered Representative](#) and the supervisory staff to conduct the necessary review to ensure that recommendations made for any account are appropriate for the client and in keeping with his [investment](#) objectives. Maintaining accurate and current documentation will allow the [Registered Representative](#) and the supervisory staff to ensure that all recommendations made for any account are appropriate for the client and in keeping with the client's [investment](#) objectives.

"Know-Your-Client" procedures must also be directed at meeting a Dealer Member's gatekeeper obligations by identifying clients that present a high risk of conducting improper activities in the securities markets. For example, if a Dealer Member is concerned about a client's reputation, the Dealer Member must make all reasonable inquiries to resolve the concern. This includes making a reasonable effort to determine, for example, the nature of the client's business. Dealer Members should refuse to accept instructions from clients who, in the Dealer Member's judgment, are engaged in illegal, unfair or abusive trading activities. "Know-Your-Client" procedures must also meet the requirements of anti-money laundering and terrorist financial legislation and regulations.

A. Documentation

1. A Dealer Member must complete an account application for each new customer that conforms to the account information requirements of this Rule.
2. A [Supervisor](#) authorized in the Dealer Member's policies and procedures to do so must approve a fully completed new account application no later than the business day after the initial trade. 'Fully completed' means that all information necessary to assess suitability, creditworthiness and risk has been obtained but does not mean that the client must have signed the application if the Dealer Member requires that the client do so. Alternate procedures for securing interim approval are acceptable to prevent undue delays provided the [Supervisor](#) applies prompt final approval following the initial trade.

If an account application received after the initial trade is not fully completed, a Dealer Member must restrict the account to liquidating trades only until a fully completed application has been approved.

3. Where the customer is an employee or agent of another registered dealer, a Dealer Member must obtain written approval of the customer's employer or principal before opening the account. A Dealer Member must designate such accounts as non-client accounts.
4. A Dealer Member must maintain a complete set of documentation regarding each account. The [Registered Representative](#)(s) handling an account must maintain a copy of the account application. A Dealer Member can meet this requirement by maintaining the information on the application in an electronic application accessible to the [Registered Representative](#).
5. The [Registered Representative](#) must update the information on the application where there is a material change in client information. The update must be approved in the manner provided in subsection A.2. A Dealer Member must restrict the access of Registered Representatives and other persons to its electronic systems for maintaining know-your-client information so that material information cannot be changed without the required approval. A Dealer Member must have procedures independent of the [Registered Representative](#) for verifying material changes to customer information, such as changes of address, financial situation, [investment](#) objectives or risk tolerance.
6. When there is a change of [Registered Representative](#), the new [Registered Representative](#) must verify the account information to ensure it is current. A Dealer Member must have a procedure for recording that the new [Registered Representative](#) has reviewed the customer information and that the appropriate Supervisor is satisfied that it has been reviewed and has approved any material changes. It is acceptable for the [Registered Representative](#) to record and initial any changes on a photocopy of the existing application provided that it was previously approved within two years of the review.
7. A Dealer Member must not assign an account number for a new customer unless it has the proper name and address of the customer.

B. Pending Documents

1. A Dealer Member must have procedures in place to ensure supporting documents are received within a reasonable period of time of opening the account.
2. A Dealer Member must have systems or procedures to prevent:
 - Trading on margin until the customer has entered into a margin agreement as described in Rule 200.1(i)(2)
 - Trading in futures contracts or futures contract options until the customer has entered into a futures contracts or futures contract options trading agreement as described in Rule 1800.2(b)
 - Trading in options until the customer has entered into an options trading agreement as described in Rule 1900.2(b)
3. A Dealer Member must have a system for recording pending account documentation and following up where it is not received in a reasonable time.
4. A Dealer Member must take positive action specified in its policies and procedures to obtain required documentation not obtained within 25 business days of the opening of the account.

C. Other Requirements

1. All hold mail must be authorized by the client in writing and be [controlled](#), reviewed on a regular basis and maintained by the responsible [Supervisor](#).
2. Returned mail must be properly investigated and [controlled](#) by a [person](#) who is independent of the sales function but may be located within a [Business Location](#).
3. For supervisory purposes, "non-client" accounts, RRSP accounts, managed accounts, discretionary accounts and restricted accounts must be readily identifiable.

III. Account Supervision Generally

Introduction

Rule 38.1 requires a Dealer Member to implement systems of supervision and [control](#) to ensure that is reasonably designed to achieve compliance with the [Rules](#) and Rulings of the Corporation and all other laws, regulations and policies [applicable](#) to the Dealer Member's securities and commodity futures business. This section provides guidance on the means used by Dealer Members to meet that requirement with respect to [retail customer](#) accounts.

A. Supervisory Structure

1. In maintaining a supervisory structure and appointing Supervisors, a Dealer Member must take into consideration all factors necessary to ensure the adequacy of the supervision, including the products traded, type of trading, location of business and other functions of Supervisors.
2. Where the Dealer Member conducts retail business in business locations outside its Head Office, it should consider the following:
 - A resident [Supervisor](#) is in the best position to know the Registered Representatives in the office, know or meet many of the clients, understand local conditions and needs, facilitate business through the timely approval of new accounts and respond immediately to questions or problems. However, a Dealer Member may determine to what extent a resident [Supervisor](#) is necessary, considering factors such as:
 - The number of Registered Representatives in the location
 - The experience of Registered Representatives in the location
 - The nature of the business conducted in the location
 - The availability of a Supervisor or Supervisors in nearby locations
 - Other systems and controls mitigating the risk of remote supervision
 - Where a [business location](#) does not have a [Supervisor](#) working in the office, it must have an outside [Supervisor](#) assigned to it. A Dealer Member's policies and procedures and the instructions to the outside [Supervisor](#) must include provision for periodic visits to the location by the [Supervisor](#) as necessary to ensure that business is being conducted properly at the location.
3. While it is not always possible in a very small firm, a Dealer Member should ensure independent supervision of all retail accounts. A [Supervisor](#)'s advice and trades for his or her own clients should be supervised by another [Supervisor](#).
4. A Dealer Member must ensure that a [Supervisor](#) who advises and trades for his or her own clients devotes sufficient time and attention to his or her supervisory role.
5. A Dealer Member must ensure that Supervisors are qualified to supervise trading activity in all products traded by those under his or her supervision and any other services that they provide to Retail Customers. Where the [Supervisor](#) is not so qualified, the Dealer

Member may divide the supervision between two or more Supervisors, but must ensure that there are appropriate mechanisms for them to communicate with one another, that the system ensures that the Dealer Member maintains an overall view of the client's situation and activity and that the assignment of responsibilities is clear and complete. One acceptable mechanism for doing so is the appointment of a primary [Supervisor](#) to whom the other [Supervisor](#)(s) provide advice with regard to the activity in the products or services the primary [Supervisor](#) is not qualified to supervise.

6. A Dealer Member's supervisory system must provide Supervisors with the information necessary to properly conduct their supervision. For account reviews this includes readily accessible client information and full information about account activity including relevant non-trade activity such as receipts, deliveries, deposits, withdrawals and journal entries.
7. A Dealer Member's supervisory system must provide for back-up during the absence of responsible Supervisors. For any prolonged absence of a [Supervisor](#), the back-up [Supervisor](#) should be advised as necessary of any ongoing issues or concerns as necessary to provide proper supervision.
8. A Dealer Member must have systems of supervision and review to ensure that Supervisors are properly fulfilling their supervisory functions. This requirement can be met by a two-tiered system of first and second level reviews as described in this policy.
9. A [Supervisor](#) must have sufficient authority to take effective and timely remedial action where account activity or any other matter under his or her supervision falls or appears to fall outside the bounds of proper conduct, just and equitable principles of trade or good business practice. Escalation for a decision by a more senior [Supervisor](#) or [Executive](#) will be considered an acceptable form of action.

B. Supervision of Account Activity

A Dealer Member must have systems and procedures to supervise trading activity in retail accounts. The supervision must provide reasonable assurance that the Dealer Member is meeting its regulatory obligations, including those to clients such as suitability and gatekeeper obligations such as preventing market abuses. The following principles should be taken into consideration:

1. Reviews may be conducted on a pre-trade or post-trade basis. A properly crafted pre-trade review process may obviate or lessen the need for post-trade reviews.
2. Review procedures must cover all accounts. Where a Dealer Member offers both commission and fee-based accounts, it cannot select accounts for review solely on the basis of commission levels; it must also have a procedure for selecting fee-based accounts for review.
3. Reviews procedures must be able to identify patterns of activity that are not apparent by reviewing trades singly. For example, a review of trading over a longer period may raise questions about the overall level of activity even though each trade, looked at singly, appears to be suitable for the client.
4. Reviews must encompass non-trade issues such as late payment, margin problems, trade cancellations or transfers and flows of funds or securities that might be suspicious of money laundering.
5. The selection of activity for post-trade review may be done using a risk-based approach reasonably designed to detect improper activity. A risk-based approach can be used to determine the period of activity to be reviewed. For example, in some cases it may be

appropriate to conduct longer-term reviews of monthly activity; in others they may consider shorter or longer periods.

6. Reviews must take into consideration, and reviewers must have access to, information about customers that may reasonably be assessed as presenting a higher risk of improper market activity such as those known by the Dealer Member to have access to material non-public information about issuers, holders of [control](#) blocks of public issuers and market professionals.
7. All account activity of employees and agents should be subject to review.
8. Reviews must be done on a timely basis, as established in the Dealer Member's policies and procedures. The timing should be reasonably designed to identify as early as possible matters requiring supervisory attention.
9. It is acceptable to use computer analysis to assist in selecting activity to be reviewed.

IV. Two-Tier Reviews

In a Dealer Member with multiple business locations conducting [Retail Customer](#) account activity, a two-tier system of post-trade activity reviews as described in this section is an acceptable structure.

The first level review will normally be conducted by a [Supervisor](#) at each [business location](#) having a resident [Supervisor](#). Such reviews may also be carried out on a regional basis or at a Dealer Member's head office provided that the systems and resources to conduct the review are available at the regional or head office and that the Dealer Member has adequate systems and procedures for dealing with any issues identified.

The second-tier review will normally be conducted at the Dealer Member's Head Office, but may also be done regionally. The second level of supervision is generally not at the same depth as first level supervision. It should and be reasonably designed to identify serious account problems, including all those listed regarding first level reviews, that may have been missed by the first level supervision and ensure that first level supervision is being adequately conducted.

Where second level reviews are conducted by personnel or a department responsible only for monitoring activity, the Dealer Member should have procedures for referring issues that cannot be resolved with first level Supervisors to a higher level [Supervisor](#) who has the authority to resolve them.

A. First-Tier Daily Reviews

A first-tier review examines the previous day's trading using means described in the Dealer Member's procedures to attempt to detect the following:

- unsuitable trading;
- undue concentration of securities in a single account or across accounts;
- excessive trade activity;
- trading in restricted securities;
- conflict of interest between [Registered Representative](#) and client trading activity;
- excessive trade transfers, trade cancellations etc. indicating possible unauthorized trading;
- inappropriate / high risk trading strategies;
- quality downgrading of client holdings;

- excessive / improper crosses of securities between clients;
- improper employee trading;
- front running;
- account number changes;
- late payment;
- outstanding margin calls;
- violation of any internal trading restrictions ;
- undisclosed short sales;
- manipulative or deceptive activities;
- insider trading.

B. First-Tier Monthly Reviews

1. A first-tier monthly review should encompass the areas of concern as described in subsection IV.A for daily activity reviews.
2. It may not be possible to review each statement produced. A first-tier monthly review starts with the selection, on a basis reasonably designed to detect improper account activity, of [Retail Customer](#) accounts to be reviewed. A Dealer Member can meet this obligation by reviewing the activity of all customers charged gross commissions of \$1,500 or more for the month.
3. A first-tier monthly review should include all non-client accounts showing any activity other than receipt of dividends or interest or payment of interest.
4. This review should be completed within 21 days of the period covered unless precluded by unusual circumstances.

C. Second-Tier Daily Reviews

1. Daily reviews should cover the following:
 - trades meeting criteria established in the Dealer Member's policies and procedures. For this purpose, the following meet the requirement:
 - stock trades with a value over \$5,000 and a price under \$5.00 per share;
 - stock trades with value over \$20,000 and a price at or over \$5.00 per share;
 - bond trades over \$100,000 value per trade;
 - non-client trading;
 - client accounts of producing [Supervisor](#);
 - all client accounts not reviewed by a [Supervisor](#);
 - trade cancellations;
 - trading in restricted accounts;
 - trading in suspense accounts;
 - account number changes;
 - late payment;
 - outstanding margin calls.

2. Daily reviews should be completed no later than the business day following the activity unless precluded by unusual circumstances.

D. Second-Tier Monthly Reviews

1. A Dealer Member must select accounts for second-tier review based on criteria established in its policies and procedures. This requirement can be met using the following criteria:
 - accounts of customers charged more than \$3,000 in commission during the month;
 - accounts of, all customers and non-clients charged more than \$1,500 in commission during the month that were not subject to a first level review by the normal first level [Supervisor](#), including the customer accounts of producing first-tier Supervisors.
2. Monthly reviews should be completed within 21 business days of the period covered unless precluded by unusual circumstances.

E. Other Activity

In addition to transactional activity, a Dealer Member must have systems and procedures designed to identify, deal with and keep first level Supervisors informed about other client related matters such as:

- client complaints;
- cash account violations;
- transfers of funds and securities between unrelated accounts or between non-client and client accounts or deposits from non-client to client accounts;
- trading while under margined.

V. Option Account Supervision

Introduction

A Dealer Member dealing in options or Exchange traded commodity or index warrants must appoint a [Supervisor](#) (the “Designated Options Supervisor”) qualified to supervise options trading to have overall responsibility for the opening of new option accounts and the supervision of account activity. The Designated Options Supervisor must ensure that the Dealer Member implements policies and procedures reasonably designed to ensure that all recommendations made for any account are and continue to be appropriate for the customer and in keeping with his or her [investment](#) objectives. In addition, a Dealer Member should, where the level of options trading activity warrants it, have a qualified Supervisor to assist in supervisory activities and to carry out the functions of the Designated Options Supervisor in his or her absence. All supervisory procedures regarding options must be conducted by options qualified Supervisors.

A. Account Opening and Approval

1. The option trading agreement and option account application must be completed and the client’s agreement recorded before the first trade. This applies to new accounts or existing accounts approved for other products.
2. The option trading agreement contents must meet or exceed Corporation requirements.
3. The Designated Options Supervisor or another options qualified Supervisor must approve all accounts to trade in options and their approval and the date of approval must be recorded.

4. The approving [Supervisor](#) must determine whether the risk characteristics of the strategies the customer intends to use are appropriate for the customer and in keeping with his or her [investment](#) objectives and risk tolerance. If they are not, the approving [Supervisor](#) should restrict the account from using inappropriate strategies and note with the option account approval any trading restrictions imposed. The [Supervisor](#) must ensure that the [Registered Representative](#) handling the account is aware of any restrictions.

B. Activity Reviews

1. A Dealer Member's supervisory procedures must include reviews of option trading activity for suitability, exceeding position or exercise limits, concentration, commission activity, and exposure of uncovered positions.
2. A two-tier post-trade review system using the following criteria is not mandatory but will be deemed to meet the review requirement:
 - Daily first-tier review of all option trading activity;
 - Daily second-tier review of opening option trading activity in excess of ten contracts in any one account.

C. Monthly Reviews

Accounts must be selected for monthly first- and second-tier reviews of account using criteria reasonably designed to detect improper activity. For accounts that trade in equities and fixed income products as well as options, it may be appropriate to use the criteria described in Section IV.D. For accounts in which the trading is more concentrated in options, the criteria should take into account the risks related to the type of strategies being used.

D. Other Options Policies and Procedures

A Dealer Member's policies and procedures must include, where applicable:

1. The Designated Options Supervisor's involvement in the approval and daily and monthly reviews of any discretionary managed accounts trading in options. The Designated Options Supervisor need not conduct such reviews but should be aware of the use of options in discretionary or managed accounts and exercise heightened care to ensure that it is conducted and supervised properly.
2. Procedures to ensure clients are notified of impending expiry dates.
3. Procedures to ensure the dissemination of information on new developments in the trading and regulation of options in a prudent and appropriate manner; and the dissemination to all clients of any changes in a firm's business policy.
4. Procedures for notifying clients of significant changes in options contracts in which they have open positions resulting from changes to the underlying security.
5. Procedures to ensure that only qualified Registered Representatives or Investment Representatives engage in trading in or advising on options and that they do so only after the Corporation has been notified as required in Rule 18.
6. Procedures to review and approve advertising and sales literature relating to options. The Designated Options Supervisor need not conduct such reviews but should be aware of the use of advertising or sales literature and exercise heightened care to ensure that it is prepared and supervised properly.

7. Procedures requiring the review and approval of the use of and solicitation of clients to use option programmes.

VI. Future and Futures Options Account Supervision

Introduction

A Dealer Member dealing in futures contracts and futures contract options must designate a [Supervisor](#) qualified to supervise futures contract and futures contract options trading (the “Designated Futures Supervisor”) to have overall responsibility for the opening of new futures and futures options accounts and the supervision of account activity. The Designated Futures Supervisor must ensure that the Dealer Member implements policies and procedures reasonably designed to ensure that all recommendations made for any account are and continue to be appropriate for the client and in keeping with his or her [investment](#) objectives. In addition, a Dealer Member should, where the level of futures and futures options trading activity warrants it, have a qualified [Supervisor](#) to assist in supervisory activities and to carry out the functions of the Designated Futures Supervisor in his or her absence. All supervisory procedures regarding futures and futures options must be conducted by futures and futures options qualified Supervisors.

A. Account Opening and Approval

1. The futures trading agreement or letter of undertaking under Rule 1800.2(b) and futures account application must be completed, and the client’s agreement recorded, before the first trade. This applies to new accounts or existing accounts approved for other products.
2. The Designated Futures Supervisor or another futures qualified [Supervisor](#) must approve all accounts and their approval and the date of approval must be recorded before any trading.
3. The [Supervisor](#) approving the opening of a hedging account must ensure that the Dealer Member has reliable evidence establishing acceptability of a client as a hedger. Such evidence can take the form of a hedge letter or statement supported by verification procedures.
4. The approving [Supervisor](#) must determine whether the risk characteristics of the futures contracts or futures contract options and strategies the customer intends to use are appropriate for the customer and in keeping with his or her [investment](#) objectives and risk tolerance. If they are not, the approving [Supervisor](#) should restrict the account from using inappropriate contracts or strategies and record with the futures account approval any trading restrictions imposed. The approving [Supervisor](#) must ensure that the [Registered Representative](#) handling the account is aware of any restrictions.
5. A Dealer Member’s futures account application or futures account agreement must include, other than for a hedging account, a risk limit for futures trading indicating the maximum amount of cumulative loss the client can afford to sustain. The maximum loss can be stated on a lifetime basis or on an annual basis. If the loss limit is stated on an annual basis, the Dealer Member must have a procedure to update it annually and the Designated Futures Supervisor or a [Supervisor](#) qualified to supervise futures must review and approve the updated loss limit and ensure that it takes into account any previously accumulated losses.

B. Supervision

A Dealer Member’s supervisory procedures must be reasonably designed to detect improper activity such as the following:

- excessive day trading resulting in trading large numbers of contracts;
- trading while under margin;
- trading without approval of the account;
- trading beyond margin or credit limits;
- cumulative losses exceeding risk limits;
- unsuitable trading;
- inappropriate trading strategies;
- position and exercise limits;
- front running;
- conflicts of interest;
- excessive commission activity;
- speculative trading in hedge accounts;
- exposure to delivery through holding contracts into delivery month;
- excessive risk or loss to account guarantors.

C. Other Futures Policies and Procedures

A Dealer Member's policies and procedures must include where applicable:

1. The Designated Futures Supervisor's involvement in the approval and daily and monthly reviews of discretionary or managed futures or futures options accounts. The Designated Futures Supervisor should approve any use of discretionary authority in a futures account.
2. A monthly review of the financial performance of each discretionary account by the Designated Futures Supervisor or a [Supervisor](#) qualified in futures contracts acting under the Designated Futures Supervisor's supervision.
3. Procedures to ensure that positions with pending delivery months are handled properly.
4. Procedures to ensure the dissemination of information on new developments in the trading and regulation of futures contracts, such as changes in minimum margin requirements, in a prudent and appropriate manner; and the dissemination to all clients of any changes in a firm's business policy.
5. Procedures to ensure that only qualified Registered Representatives engage in trading in or advising on futures contracts or futures contracts options and that they do so only after the Corporation has been notified as required in Rule 18.
6. Procedures to review and approve sales literature or advertising relating to futures. The Designated Futures Supervisor need not conduct such reviews but should be aware of the use of futures advertising or sales literature and exercise heightened care to ensure that it is prepared and supervised properly.
7. Procedures requiring the review and approval of the use and solicitation of clients to use futures programmes.

VII. Discretionary Account Supervision

Introduction

Simple discretionary accounts are accounts where the discretionary authority has not been solicited and which are designed to accommodate customers who are frequently or temporarily unavailable to authorize trades.

A Dealer Member must consent to accepting discretionary accounts and have the proper documentation and supervisory procedures in place to handle such accounts.

A. Account Approval

1. The [Designated Supervisor](#) under Rule 1300.4(a) must approve any request for discretion.
2. The Dealer Member and customer must enter into a discretionary account agreement that includes any restrictions to the trading authorization. The [Supervisor](#) designated under Rule 1300.4(a) must approve the agreement.
3. The Dealer Member must identify discretionary accounts in its books and records in a manner that ensures that the Dealer Member can properly supervise them.

B. Entry of Orders

1. A [Supervisor](#) must approve any discretionary order for a discretionary account handled by a [Registered Representative](#) prior to the order being entered unless:
 - the [Registered Representative](#) is qualified to provide discretionary management services and the Dealer Member has notified the Corporation that he or she provides those services, or
 - the [Registered Representative](#) is also an approved [Executive](#).
2. A discretionary account may not hold any publicly traded securities of the Dealer Member or its affiliates.

C. Account Supervision

1. The Supervisor designated under Rule 1300.4(a) must review discretionary orders entered by an [Executive](#) no later than next day unless the [Executive](#) is also a [Registered Representative](#) qualified to provide discretionary management services and the Dealer Member has notified the Corporation that he or she provides those services.

VIII. Client Complaints

Each Dealer Member must establish policies and procedures to deal effectively with client complaints. Such policies and procedures must comply with Rule 2500B regarding client complaint handling, and also address complaints that may fall outside the scope of Rule 2500B. All complaints made in writing must be provided with a written response from Dealer Members.