

## RULE 2700

### MINIMUM STANDARDS FOR INSTITUTIONAL CUSTOMER ACCOUNT OPENING, OPERATION AND SUPERVISION

#### Introduction

This Rule covers the opening, operation and supervision of [Institutional Customer](#) accounts, which are accounts for investors that are not individuals who meet the requirements of the definition herein.

This document sets out minimum standards governing the opening, operation and supervision of [Institutional Customer](#) accounts.

Pursuant to Rule 38, the Dealer Member must provide adequate resources and qualified supervisors to achieve compliance with these standards.

Adherence to the minimum standards requires that a Dealer Member have in place procedures to properly open and operate [Institutional Customer](#) accounts and monitor their activity. Following these minimum standards, however, does not:

- (a) relieve a Dealer Member from complying with specific SRO by-laws, rules, regulations and policies and securities or other legislation applicable to particular trades or accounts; (e.g. best execution obligation, restrictions on short selling, order designations and identifiers, exposure of customer orders, trade disclosures);
- (b) relieve a Dealer Member from the obligation to impose higher standards where circumstances clearly dictate the necessity to do so to ensure proper supervision; or
- (c) preclude a Dealer Member from establishing higher standards.

Any account other than an [Institutional Customer](#) account governed by these standards will be governed by the Minimum Standards for Retail Account Supervision (Rule 2500).

A Dealer Member may, with the written approval of the Corporation, establish policies and procedures that differ from this Rule, provided that, in the opinion of the Corporation, the Dealer Member's policies and procedures are appropriate to supervise trading of its Institutional Customers.

#### I. Customer Suitability

1. When dealing with an [Institutional Customer](#), a Dealer Member must make a determination whether the customer is sufficiently sophisticated and capable of making its own [investment](#) decisions in order to determine the level of suitability owed to that [Institutional Customer](#). Where a Dealer Member has reasonable grounds for concluding that the [Institutional Customer](#) is capable of making an independent [investment](#) decision and independently evaluating the [investment](#) risk, then a Dealer Member's suitability obligation is fulfilled for that transaction. If no such reasonable grounds exist, then the Dealer Member must take steps to ensure that the [Institutional Customer](#) fully understands the [investment](#) product, including the potential risks.
2. In making a determination whether a customer is capable of independently evaluating [investment](#) risk and is exercising independent judgment, relevant considerations could include:
  - (a) any written or oral understanding that exists between a Dealer Member and its customer regarding the customer's reliance on the Dealer Member;

- (b) the presence or absence of a pattern of acceptance of the Dealer Member's recommendations;
  - (c) the use by a customer of ideas, suggestions, market views and information obtained from other Dealer Members, market professionals or issuers particularly those relating to the same type of securities;
  - (d) the use of one or more [investment](#) dealers, portfolio managers, [investment](#) counsel or other third party advisors;
  - (e) the general level of experience of the customer in financial markets;
  - (f) the specific experience of the customer with the type of instrument(s) under consideration, including the customer's ability to independently evaluate how market developments would affect the security and ancillary risks such as currency rate risk; and
  - (g) the complexity of the securities involved.
3. A Dealer Member has no suitability obligation under Section I.1 and is not required to make a determination required under Section I.2 when the Dealer Member executes a trade on the instructions of another Dealer Member, a portfolio manager, [investment](#) counsel, exempt market dealer, bank, trust company or insurer.
4. A Dealer Member has no suitability obligation under Section I.1 and is not required to make a determination required under Section I.2 when the Dealer Member executes a trade on the instructions of an [Institutional Customer](#) that:
- (a) is also a "permitted client", as defined in National Instrument 31-103;
  - (b) is not a customer described in Section I.3; and
  - (c) has waived, in writing, the protections offered to them under Sections I.1 and I.2.

## **II. New Account Documentation and Approval**

1. A Dealer Member must complete a new customer account form for each [Institutional Customer](#); and
2. A Dealer Member may establish a 'master' new account documentation file, containing full documentation and, when opening sub-accounts, it should refer to the principal or 'master' account with which it is associated.
3. Each new account must be approved by a [Supervisor](#) who is Department Head or his or her designate prior to the initial trade or promptly thereafter. Such approval must be recorded in writing or auditable electronic form.
4. The Dealer Member must exercise due diligence to ensure that the new customer account form is updated whenever the Dealer Member becomes aware that there is a material change in customer information.

## **III. Establishing and Maintaining Procedures, Delegation and Education**

### **Introduction**

Effective self-regulation begins with the Dealer Member establishing and maintaining a supervisory environment which fosters both the business objectives of the Dealer Member and maintains the self-regulatory process. To that end, a Dealer Member must establish and maintain procedures which are supervised by qualified individuals.

**A. Establishing Procedures**

1. A Dealer Member must appoint a [Designated Supervisor](#), who has the necessary knowledge of industry regulations and Dealer Member policy to properly establish procedures reasonably designed to ensure adherence to regulatory requirements and to supervise [Institutional Customer](#) Accounts.
2. Written policies must be established to document and communicate supervisory requirements.
3. All alternate Supervisors must be advised of and adequately trained for their supervisory roles.
4. All policies established or amended should have senior management approval.

**B. Maintaining Procedures**

1. Evidence of supervisory reviews must be maintained for seven years and on-site for one year.
2. A periodic review of supervisory policies and procedures should be carried out by the Dealer Member to ensure they continue to be effective and reflect any material changes to the businesses involved.

**C. Delegation of Procedures**

1. Tasks and procedures may be delegated but not responsibility.
2. The [Supervisor](#) delegating the task must take steps designed to ensure that these tasks are being performed adequately and that exceptions are brought to his/her attention.
3. Those to whom tasks are delegated must have the qualifications to perform them and should be advised in writing what is expected.

**D. Education**

1. The Dealer Member's current sales practices and policies must be made available to all sales and supervisory personnel. Dealer Members should obtain and record acknowledgements from all sales and supervisory personnel that they have received, read and understood the policies and procedures relevant to their responsibilities.
2. A major aspect of self-regulation is the ongoing education of staff. The Dealer Member is responsible for appropriate training of institutional sales and trading staff, as well as ensuring that Continuing Education requirements are being met.

**E. Compliance Monitoring Procedures**

Dealer Members must establish compliance procedures for monitoring and reporting adherence to rules, regulations, requirements, policies and procedures. A compliance monitoring system should be reasonably designed to prevent and detect violations. The compliance monitoring system will ordinarily include a procedure for reporting results of its monitoring efforts to management and, where appropriate, the board of directors or its equivalent.

#### **IV. Supervision of Accounts**

##### **A. Policies and Procedures**

1. Dealer Members must implement policies and procedures for the supervision and review of activity in the accounts of Institutional Customers. Such procedures may include periodic reviews of account activity, exception reports or other means of analysis.
2. The policies and procedures may vary depending on factors including, but not limited to, the type of product, type of customer, type of activity or level of activity.
3. The policies and procedures should outline the action to be taken to deal with problems or issues identified from supervisory reviews.

##### **B. Account Activity Detection**

The supervisory procedures and the compliance monitoring procedures should be reasonably designed to detect account activity that is or may be a violation of applicable securities legislation, requirements of any [self-regulatory organization](#) applicable to the account activity and the rules and policies of any marketplace on which the account activity takes place, and would include the following:

1. Manipulative or deceptive activities;
2. Trading in restricted list securities;
3. Employee or proprietary account front running;
4. Exceeding position or exercise limits on derivative products; and
5. Transactions raising a suspicion of money laundering or terrorist financing activity.

#### **V. Client Complaints**

1. Each Dealer Member must establish procedures to deal effectively with client complaints.
  - (a) The Dealer Member must acknowledge all written client complaints.
  - (b) The Dealer Member must convey the results of its investigation of a client complaint to the client in due course.
  - (c) Client complaints involving the sales practices of a Dealer Member, its partners, Directors, Officers or employees must be in writing and signed by the client and then handled by sales supervisors or compliance staff. Copies of all such written submissions must be filed with the compliance department of the Dealer Member.
  - (d) Each Dealer Member must ensure that Registered Representatives and their Supervisors are made aware of all complaints filed by their clients.
2. All pending legal actions must be made known to head office.
3. Each Dealer Member must put procedures in place so that senior management is made aware of complaints of serious misconduct and of all legal actions.
4. Each Dealer Member must maintain an orderly record of complaints together with follow-up documentation for regular internal/external compliance reviews. This record must cover the past two years at least.

5. Each Dealer Member must establish procedures to ensure that breaches of the by-laws, regulations, rules and policies of the SROs as well as applicable securities legislation are subjected to appropriate internal disciplinary procedures.
6. When a Dealer Member finds complaints to be a significant factor, internal procedures and practices should be reviewed, with recommendations for changes to be submitted to the appropriate management level.