

RULE 35

INTRODUCING BROKER/CARRYING BROKER ARRANGEMENTS

35.1. General

- (a) For the purposes of this Rule 35:
- (i) "**Carrying Broker**" means a Dealer Member that carries client accounts for another Dealer Member, which includes the clearing and settlement of trades, the maintenance of records of client transactions and accounts and the custody of client cash and securities, in accordance with the requirements set out in this Rule;
 - (ii) "**Introducing Broker**" means the Dealer Member or member of a [self-regulatory organization](#) that is a participating institution in the Canadian Investor Protection Fund that introduces client accounts to the [carrying broker](#);
 - (iii) "**Canadian Financial Institution**" means a Schedule I or Schedule II Bank pursuant to the Bank Act (Canada), an insurance company governed by federal or provincial insurance legislation and a loan or trust company governed by federal or provincial loan and trust company legislation.
- (b) A Dealer Member may, with the approval of the applicable District Council and if otherwise in compliance with the terms of this Rule and any requirements of the regulatory authority in the jurisdiction of the [introducing broker](#), carry accounts of clients introduced to it by:
- (i) Another Dealer Member; or
 - (ii) A member of a [self-regulatory organization](#) that is a participating institution in the Canadian Investor Protection Fund.
- (c) A Dealer Member shall not introduce accounts to any person other than:
- (i) Another Dealer Member; or
 - (ii) A member of a [self-regulatory organization](#) that is a participating institution in the Canadian Investor Protection Fund.
- (d) For the purposes of this Rule 35, arrangements whereby employees of a Dealer Member's affiliated [Canadian financial institution](#) handle securities clearance and settlement, maintain records and perform operational functions on behalf of the Dealer Member shall not be considered to be introducing/carrying arrangements for the purposes of this Rule 35, provided that pursuant to the arrangement, the employees of the Dealer Member's affiliated [Canadian financial institution](#) handle custodial functions on a segregated basis in accordance with the segregation provisions of the Rule.
- (e) Except as otherwise provided herein, an [introducing broker](#) may introduce clients to only one [carrying broker](#). An [introducing broker](#) that introduces clients to a [carrying broker](#) shall enter into a written contract with the [carrying broker](#) to which it introduces clients defining, to an extent determined from time to time by the Corporation the rights and obligations between them.
- (i) Dealer Members who enter into an [introducing broker/carrying broker](#) arrangement must enter into a written contract in a form prescribed from time to time by the Corporation and each such [introducing broker/carrying broker](#) arrangement shall come into effect only after it is approved by the Corporation;

- (ii) An [introducing broker](#) that is party to an Introducing Type 1 or Type 2 Arrangement cannot enter into more than one [introducing broker/carrying broker](#) arrangement other than one additional [introducing broker/carrying broker](#) arrangement exclusively for trading in futures contracts and options;
- (iii) An [introducing broker](#) that is party to an Introducing Type 1 or Type 2 Arrangement shall not fully service any part of its [securities-related activities](#), other than fully servicing trading in futures contracts and options;
- (iv) An [introducing broker](#) that is party to an Introducing Type 1 Arrangement shall carry out trade settlement and custody of securities related to its principal trading through the facilities of the [carrying broker](#); and
- (v) An [introducing broker](#) that is party to an Introducing Type 3 or Type 4 Arrangement may enter into more than one [introducing broker/carrying broker](#) arrangement and may also fully service part of its [securities-related activities](#).
- (f) Each introducing or [carrying broker](#) that is a party to an [introducing broker/carrying broker](#) arrangement and that is not a Dealer Member, and each of such introducing or carrying brokers' partners, directors, officers, shareholders and employees, shall comply with all [Rules](#), Rulings and Forms of the Corporation.
- (g) Each [introducing broker/carrying broker](#) arrangement must be classified as an Introducing Type 1, Type 2, Type 3 or Type 4 Arrangement and must meet the requirements for such arrangement as set out in this Rule 35.
- (h) A Dealer Member may apply for an exemption from the requirements of Rule 35 in accordance with Rule 20.25.

35.2. Introducing Type 1 Arrangement

For an [introducing broker/carrying broker](#) arrangement to be considered an Introducing Type 1 Arrangement, the parties shall execute an agreement in the form prescribed and approved by the Corporation and the arrangement shall meet the following criteria:

(a) Minimum Capital Requirement

An [introducing broker](#) that is a party to an Introducing Type 1 Arrangement must maintain at all times minimum capital of \$75,000 for the purposes of calculating its risk adjusted capital.

(b) Margin Arising from Principal and Agency Business

- (i) The [carrying broker](#) shall calculate and maintain the margin for any agency business that it carries on behalf of the [introducing broker](#) in accordance with the relevant margin requirements of the Corporation.
- (ii) The [introducing broker](#) shall calculate and maintain the margin for any principal business carried on its behalf by the [carrying broker](#) in accordance with the relevant margin requirements of the Corporation. The [carrying broker](#) shall provide for margin for any principal business which it carries on behalf of the [introducing broker](#) to the extent of any equity deficiency in the introducing broker's trading account.

(c) Margin Offsets Permitted

The [carrying broker](#) shall be permitted to offset any margin required to be maintained as determined in subparagraph (b) against the loan value of any deposits made by the [introducing broker](#) to the extent of the excess risk adjusted capital of the [introducing](#)

[broker](#). The [carrying broker](#) shall notify the [introducing broker](#) of all such offsets at the time of such offset. Upon receiving notification of such offset, the [introducing broker](#) shall reclassify that portion of the deposit which relates to the margin offset as a non-allowable asset on its Form 1 (Joint Regulatory Financial Questionnaire and Report) or Monthly Financial Report.

(d) Reporting of Client Balances

In calculating the risk adjusted capital required pursuant to Rule 17.1 and Form 1, the [carrying broker](#) shall, and the [introducing broker](#) shall not, report all accounts of the clients introduced to the [carrying broker](#) by the [introducing broker](#) on the carrying broker's Form 1 or Monthly Financial Report.

(e) Net Client Balances/Funding Deployment

In relation to the accounts of clients introduced to the [carrying broker](#) by the [introducing broker](#), the [carrying broker](#) shall be responsible for meeting any financing requirements of such client accounts.

(f) Deposit

Any deposit provided to the [carrying broker](#) by the [introducing broker](#) pursuant to the terms of the agreement between them shall be segregated by the [carrying broker](#) and, in the case of a cash deposit, such deposit shall be held by the [carrying broker](#) in a separate bank account in trust for the [introducing broker](#).

The deposit provided by the [introducing broker](#) to the [carrying broker](#) shall be reported by the [introducing broker](#) as an allowable asset on its Form 1 or Monthly Financial Report. However, any portion of the deposit that may be impaired in value due to the [carrying broker](#) carrying client accounts with unsecured debit balances on behalf of the [introducing broker](#) shall be reclassified as a non-allowable asset on the Form 1 or Monthly Financial Report of the [introducing broker](#).

(g) Concentration Calculation

For the purposes of the concentration calculations required in Schedules 9 and 12 of Form 1, the [carrying broker](#) shall include, and the [introducing broker](#) shall not include, all client positions which the [carrying broker](#) maintains on behalf of the [introducing broker](#) in the carrying broker's calculation.

(h) Segregation of Client Securities

The [carrying broker](#) shall be responsible for segregating all securities for clients introduced to it by the [introducing broker](#) in accordance with the segregation requirements of the [Rules](#).

(i) Free Credit Segregation

The [carrying broker](#) shall be responsible for complying with the free credit segregation requirements of the [Rules](#) in relation to accounts of clients introduced to it by the [introducing broker](#).

(j) Insurance

(i) The [introducing broker](#) shall maintain minimum insurance of \$200,000 for the purposes of Rule 400.4.

- (ii) The [introducing broker](#) and the [carrying broker](#) each shall be responsible for providing Financial Institution Bond Clause (A) coverage for fidelity insurance under Rule 400.2.
- (iii) The [carrying broker](#) shall include all accounts introduced to it by the [introducing broker](#) in its calculation of the asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E) under Rule 400.2.
- (iv) Both the [introducing broker](#) and the [carrying broker](#) shall maintain adequate insurance for registered mail as required under Rule 400.1.

(k) Required Disclosure of the Opening of Client Accounts

At the time of opening each client account, the [introducing broker](#) shall obtain from the person opening the account an acknowledgement, in a form satisfactory to the Corporation, that the [introducing broker](#) has advised the client of the introducing broker's relationship to the [carrying broker](#) and of the relationship between the client and the [carrying broker](#).

(l) Contracts, Statements and Correspondence

The name and role of each of the [introducing broker](#) and the [carrying broker](#) shall be shown on all contracts, statements, correspondence and other documentation, and shall both be parties to any margin agreements and guarantee documentation.

(m) Clients Introduced to the Carrying Broker

Each client introduced to the [carrying broker](#) by the [introducing broker](#) shall be considered a client of the [carrying broker](#) for the purposes of complying with the [Rules](#), [Rulings](#) and [Forms](#) of the Corporation.

(n) Responsibility for Compliance with all Non-Financial Requirements

Unless otherwise specified in this Rule 35.2, the [introducing broker](#) and the [carrying broker](#) shall be jointly and severally responsible for the compliance with all non-financial requirements of the [Rules](#), [Rulings](#) and [Forms](#) of the Corporation for each account introduced to the [carrying broker](#) by the [introducing broker](#).

(o) Cash Transactions

The [introducing broker](#) may facilitate cash transactions on behalf of clients carried by the [carrying broker](#) only with the approval of the [carrying broker](#) through the use of an account in the name of the [carrying broker](#).

(p) Reporting of Principal Positions

The [introducing broker](#) shall report all of its principal positions carried by the [carrying broker](#) as inventory on its Form 1 or Monthly Financial Report. The [carrying broker](#) shall report the principal positions of the [introducing broker](#) carried by it as a client account on its Form 1 or Monthly Financial Report.

35.3. Introducing Type 2 Arrangement

For an [introducing broker/carrying broker](#) arrangement to be considered an Introducing Type 2 Arrangement, the parties shall execute an agreement in the form prescribed and approved by the Corporation and the arrangement shall meet the following criteria:

(a) Minimum Capital Requirement

An [introducing broker](#) that is a party to an Introducing Type 2 Arrangement must maintain at all times minimum capital of \$250,000 for the purposes of calculating its risk adjusted capital.

(b) Margin Arising from Principal and Agency Business

- (i) The [carrying broker](#) shall calculate and maintain the margin for any agency business that it carries on behalf of the [introducing broker](#) in accordance with the relevant margin requirements of the Corporation.
- (ii) The [introducing broker](#) shall calculate and maintain the margin for any principal business carried on its behalf by the [carrying broker](#) in accordance with the relevant margin requirements of the Corporation. The [carrying broker](#) shall provide for margin for any principal business which it carries on behalf of the [introducing broker](#) to the extent of any equity deficiency in the introducing broker's trading account.

(c) Margin Offsets Permitted

The [carrying broker](#) shall be permitted to offset any margin required to be maintained as determined in subparagraph (b) against the loan value of any deposits made by the [introducing broker](#) to the extent of the excess risk adjusted capital of the [introducing broker](#). The [carrying broker](#) shall notify the [introducing broker](#) of all such offsets at the time of such offset. Upon receiving notification of such offset, the [introducing broker](#) shall reclassify that portion of the deposit which relates to the margin offset as a non-allowable asset on its Form 1 (Joint Regulatory Financial Questionnaire and Report) or Monthly Financial Report.

(d) Reporting of Client Balances

In calculating the risk adjusted capital required pursuant to Rule 17.1 and Form 1, the [carrying broker](#) shall, and the [introducing broker](#) shall not, report all accounts of the clients introduced to the [carrying broker](#) by the [introducing broker](#) on the carrying broker's Form 1 or Monthly Financial Report.

(e) Net Client Balances/Funding Deployment

In relation to the accounts of clients introduced to the [carrying broker](#) by the [introducing broker](#), the [carrying broker](#) shall be responsible for meeting any financing requirements of such client accounts.

(f) Deposit

Any deposit provided to the [carrying broker](#) by the [introducing broker](#) pursuant to the terms of the agreement between them shall be segregated by the [carrying broker](#) and, in the case of a cash deposit, such deposit shall be held by the [carrying broker](#) in a separate bank account in trust for the [introducing broker](#).

The deposit provided by the [introducing broker](#) to the [carrying broker](#) shall be reported by the [introducing broker](#) as an allowable asset on its Form 1 or Monthly Financial Report. However, any portion of the deposit that may be impaired in value due to the [carrying broker](#) carrying client accounts with unsecured debit balances on behalf of the [introducing broker](#) shall be reclassified as a non-allowable asset on the Form 1 or Monthly Financial Report of the [introducing broker](#).

(g) Concentration Calculation

For the purposes of the concentration calculations required in Schedule 9 and 12 of Form 1, the [carrying broker](#) shall include, and the [introducing broker](#) shall not include, all client positions which the [carrying broker](#) maintains on behalf of the [introducing broker](#) in the carrying broker's calculation.

(h) Segregation of Client Securities

The [carrying broker](#) shall be responsible for segregating all securities which it holds for clients introduced to it by the [introducing broker](#) in accordance with the segregation requirements of the [Rules](#).

(i) Free Credit Segregation

The [carrying broker](#) shall be responsible for complying with the free credit segregation requirements of the [Rules](#) in relation to accounts of clients introduced to it by the [introducing broker](#).

(j) Insurance

- (i) The [introducing broker](#) shall maintain minimum insurance of \$500,000 for the purposes of Rule 400.4.
- (ii) The [introducing broker](#) and the [carrying broker](#) each shall be responsible for providing Financial Institution Bond Clause (A) coverage for fidelity insurance under Rule 400.2.
- (iii) The [carrying broker](#) shall include all accounts introduced to it by the [introducing broker](#) in its calculation of the asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E) under Rule 400.2.
- (iv) Both the [introducing broker](#) and the [carrying broker](#) shall maintain adequate insurance for registered mail as required under Rule 400.1.

(k) Required Disclosure of the Opening of Client Accounts

At the time of opening each client account, the [introducing broker](#) shall obtain from the person opening the account an acknowledgement, in a form satisfactory to the Corporation, that the [introducing broker](#) has advised the client of the introducing broker's relationship to the [carrying broker](#) and of the relationship between the client and the [carrying broker](#).

(l) Contracts, Statements and Correspondence

At the option of the [introducing broker](#) and the [carrying broker](#) as they may agree, the name and role of each of the [introducing broker](#) and the [carrying broker](#) may be shown on any contracts, statements, correspondence and other documentation, otherwise the name of the [introducing broker](#) shall be shown. Notwithstanding the foregoing, all margin agreements and guarantee documentation shall be in the name of both the [introducing broker](#) and the [carrying broker](#).

(m) Required Annual Disclosure

At least annually, the [introducing broker](#) shall provide written disclosure, in the form satisfactory to the Corporation, to each of its clients whose accounts are being carried by the [carrying broker](#), outlining the relationship between the [introducing broker](#) and the [carrying broker](#) and the relationship between such client and the [carrying broker](#). Notwithstanding the foregoing, if the name and role of each of the [introducing broker](#) and

the [carrying broker](#) is shown on all contracts, statements, correspondence and other documentation in accordance with subparagraph (1) above, the [introducing broker](#) need not provide annual disclosure as required by this subparagraph (m).

(n) Clients Introduced to the Carrying Broker

Each client introduced to the [carrying broker](#) by the [introducing broker](#) shall be considered to be a client of the [carrying broker](#) for the purposes of complying with the [Rules](#), Rulings and Forms.

(o) Responsibility for Compliance with all Non-Financial Requirements

Unless otherwise specified in this Rule 35.3, the [introducing broker](#) shall be responsible for the compliance with all non-financial requirements of the [Rules](#), Rulings and Forms of the Corporation for each account introduced to the [carrying broker](#) by the [introducing broker](#).

(p) Cash Transactions

The [introducing broker](#) may facilitate cash transactions on behalf of clients carried through the [carrying broker](#) through the use of an account in the name of either the [carrying broker](#) or the [introducing broker](#).

(q) Reporting of Principal Positions

The [introducing broker](#) shall report all of its principal positions carried by the [carrying broker](#) as inventory on its Form 1 or Monthly Financial Report. The [carrying broker](#) shall report all principal positions of the [introducing broker](#) carried by it as a client account on its Form 1 or Monthly Financial Report.

35.4. Introducing Type 3 Arrangement

For an [introducing broker/carrying broker](#) arrangement to be considered an Introducing Type 3 Arrangement, the parties shall execute an agreement in the form prescribed and approved by the Corporation and the arrangement shall meet the following criteria:

(a) Minimum Capital Requirement

An [introducing broker](#) that is a party to an Introducing Type 3 Arrangement must maintain at all times minimum capital of \$250,000 for the purposes of calculating its risk adjusted capital.

(b) Margin Arising from Principal and Agency Business

The [carrying broker](#) shall calculate the margin for any principal and agency business that it carries on behalf of the [introducing broker](#) in accordance with the relevant margin requirements of the Corporation and the [introducing broker](#) shall maintain such required margin.

(c) Margin Offsets Permitted

The [carrying broker](#) shall be permitted to offset any margin required to be maintained as determined in subparagraph (b) against the loan value of any deposits made by the [introducing broker](#) with the [carrying broker](#).

(d) Reporting of Client Balances

In calculating the risk adjusted capital required pursuant to Rule 17.1 and Form 1, the [introducing broker](#) shall, and the [carrying broker](#) shall not, report all accounts of the clients introduced to the [carrying broker](#) by the [introducing broker](#) on the introducing

broker's Form 1 or Monthly Financial Report. Notwithstanding the foregoing, the [carrying broker](#) shall be required to report one balance owing to or from the [introducing broker](#) in relation to the accounts of clients which it carries on behalf of the [introducing broker](#) on its Form 1 or Monthly Financial Report. Such reporting of one balance shall not release, discharge, limit or otherwise affect the carrying broker's obligations and liabilities to each [individual](#) client whose account it carries on behalf of the [introducing broker](#).

(e) Net Client Balances/Funding Deployment

In relation to the accounts of clients introduced to the [carrying broker](#) by the [introducing broker](#), the [carrying broker](#) shall be responsible for meeting any financing requirements of such client accounts.

(f) Comfort Deposit

Any deposit provided to the [carrying broker](#) by the [introducing broker](#) pursuant to the terms of the agreement between them shall be segregated by the [carrying broker](#) and, in the case of a cash deposit, such deposit shall be held by the [carrying broker](#) in a separate bank account in trust for the [introducing broker](#).

(g) Concentration Calculation

For the purposes of the concentration calculations required in Schedules 9 and 12 of the Form 1, the [introducing broker](#) shall include, and the [carrying broker](#) shall not include, all client positions which the [carrying broker](#) maintains on behalf of the [introducing broker](#) in the introducing broker's calculation.

(h) Segregation of Client Securities

The [carrying broker](#) shall be responsible for segregating all securities which it holds for clients introduced to it by the [introducing broker](#) in accordance with the segregation requirements of the [Rules](#).

(i) Free Credit Segregation

The [carrying broker](#) shall be responsible for complying with the free credit segregation requirements of the [Rules](#) in relation to accounts of clients introduced to it by the [introducing broker](#).

(j) Insurance

- (i) The [introducing broker](#) shall maintain minimum insurance protection of \$500,000 for the purposes of Rule 400.4.
- (ii) The [introducing broker](#) and the [carrying broker](#) each shall be responsible for providing Financial Institution Bond Clause (A) coverage for fidelity insurance under Rule 400.2.
- (iii) The [carrying broker](#) and the [introducing broker](#) shall include all accounts introduced to the [carrying broker](#) by the [introducing broker](#) in each of their calculations of the asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E) under Rule 400.2.
- (iv) Both the introducing and the [carrying broker](#) shall maintain adequate insurance for registered mail as required under Rule 400.1.

(k) Required Disclosure of the Opening of Client Accounts

At the time of opening each client account, the [introducing broker](#) shall advise the client of the introducing broker's relationship to the [carrying broker](#) and of the relationship between the client and the [carrying broker](#).

(l) Contracts, Statements and Correspondence

At the option of the [introducing broker](#) and the [carrying broker](#) as they may agree, the name and role of each of the [introducing broker](#) and the [carrying broker](#) may be shown on all contracts, statements, correspondence and other documentation, otherwise the name of the [introducing broker](#) shall be shown. Notwithstanding the foregoing, all margin agreements and guarantee documentation shall be in the name of both the [introducing broker](#) and the [carrying broker](#).

(m) Required Annual Disclosure

At least annually, the [introducing broker](#) shall provide written disclosure, in a form satisfactory to the Corporation, to each of its clients whose accounts are being carried by the [carrying broker](#), outlining the relationship between the [introducing broker](#) and the [carrying broker](#) and the relationship between such client and the [carrying broker](#). Notwithstanding the foregoing, if the name and role of each of the [introducing broker](#) and the [carrying broker](#) is shown on all contracts, statements, correspondence and other documentation in accordance with subparagraph (l) above, the [introducing broker](#) need not provide annual disclosure as required by this subparagraph (m).

(n) Clients Introduced to the Carrying Broker

Each client introduced to the [carrying broker](#) by the [introducing broker](#) shall be considered to be a client of the [carrying broker](#) for the purposes of the [Rules](#), [Rulings](#) and [Forms](#).

(o) Responsibility for Compliance with all Non-Financial Exchange Requirements

Unless otherwise specified in this Rule 35.4, the [introducing broker](#) shall be responsible for the compliance with all non-financial requirements of the [Rules](#), [Rulings](#) and [Forms](#) of the Corporation for each account introduced to the [carrying broker](#) by the [introducing broker](#).

(p) Cash Transactions

The [introducing broker](#) may facilitate cash transactions on behalf of clients carried through the [carrying broker](#) through the use of an account in the name of either the [carrying broker](#) or the [introducing broker](#).

(q) Reporting of Principal Positions

The [introducing broker](#) shall report all of its principal positions carried by the [carrying broker](#) as inventory on its Form 1 or Monthly Financial Report. The [carrying broker](#) shall report all principal positions of the [introducing broker](#) carried by it as a client account on its Form 1 or Monthly Financial Report.

35.5. Introducing Type 4 Arrangement

For an [introducing broker/carrying broker](#) arrangement to be considered an Introducing Type 4 Arrangement, the parties shall execute an agreement in the form prescribed and approved by the Corporation and the arrangement shall meet the following criteria:

(a) Minimum Capital Requirement

An [introducing broker](#) that is a party to an Introducing Type 4 Arrangement must maintain at all times minimum capital of \$250,000 for the purposes of calculating its risk adjusted capital.

(b) Margin Arising from Principal and Agency Business

The [carrying broker](#) shall calculate the margin for any principal and agency business that the [carrying broker](#) carries on behalf of the [introducing broker](#) in accordance with the relevant margin requirements of the Corporation and the [introducing broker](#) shall maintain the required margin.

(c) Margin Offsets Permitted

The [carrying broker](#) shall be permitted to offset any margin required to be maintained as determined in subparagraph (b) against the loan value of any deposits made with the [carrying broker](#).

(d) Reporting of Client Balances

In calculating the risk adjusted capital required pursuant to Rule 17.1 and Form 1, the [introducing broker](#) shall, and the [carrying broker](#) shall not, report all accounts of the clients introduced to the [carrying broker](#) by the [introducing broker](#) on the introducing Broker's Form 1 or Monthly Financial Report. Notwithstanding the foregoing, the [carrying broker](#) shall be required to report one balance owing to or from the [introducing broker](#) in relation to the accounts of clients which it carries on behalf of the [introducing broker](#) on its Form 1 or Monthly Financial Report. Such reporting of one balance shall not release, discharge, limit or otherwise affect the carrying broker's obligations and liabilities to each [individual](#) client whose account it carries on behalf of the [introducing broker](#).

(e) Net Client Balances/Funding Deployment

In relation to the accounts of clients introduced to the [carrying broker](#) by the [introducing broker](#), the [introducing broker](#) shall be responsible for meeting any financing requirements of such client accounts.

(f) Deposit

Any deposit provided to the [carrying broker](#) by the [introducing broker](#) pursuant to the terms of the agreement between them shall be segregated by the [carrying broker](#) and, in the case of a cash deposit, such deposit shall be held by the [carrying broker](#) in a separate bank account in trust for the [introducing broker](#).

(g) Concentration Calculation

For the purposes of the concentration calculations required in Schedules 9 and 12 of Form 1, the [introducing broker](#) shall include, and the [carrying broker](#) shall not include, all client positions which the [carrying broker](#) maintains on behalf of the [introducing broker](#) in the introducing broker's calculation.

(h) Segregation of Client Securities

The [carrying broker](#) shall be responsible for segregating all securities which it holds for clients introduced to it by the [introducing broker](#) in accordance with the segregation requirements of the [Rules](#).

(i) Free Credit Segregation

The [introducing broker](#) shall be responsible for complying with the free credit segregation requirements of the [Rules](#) in relation to accounts of clients introduced to the [carrying broker](#) by the [introducing broker](#).

(j) Insurance

- (i) The [introducing broker](#) shall maintain minimum insurance protection of \$500,000 for the purposes of Rule 400.4.
- (ii) The [introducing broker](#) and the [carrying broker](#) each shall be responsible for providing Financial Institution Bond Clause (A) coverage for fidelity insurance under Rule 400.2.
- (iii) The [carrying broker](#) and the [introducing broker](#) shall include all accounts introduced to the [carrying broker](#) by the [introducing broker](#) in each of their calculations of the asset measurement for minimum Financial Institution Bond coverage for Clauses (a) through (E) under Rule 400.2.
- (iv) Both the introducing and the [carrying broker](#) shall maintain adequate insurance for registered mail as required under Rule 400.1.

(k) Required Disclosure of the Opening of Client Accounts

At the time of opening each client account, the [introducing broker](#) shall advise the client of the introducing broker's relationship to the [carrying broker](#) and of the relationship between the client and the [carrying broker](#).

(l) Contracts, Statements and Correspondence

At the option of the [introducing broker](#) and the [carrying broker](#) as they may agree, the name and role of each of the [introducing broker](#) and the [carrying broker](#) may be shown on all contracts, statements, correspondence and other documentation, otherwise the name of the [introducing broker](#) shall be shown. Notwithstanding the foregoing, if any guarantee or margin agreement is solely between the client and the [introducing broker](#), the agreement between the [introducing broker](#) and the [carrying broker](#) shall provide that the [carrying broker](#) may act to protect its interest in those securities for which it has not been paid by the [introducing broker](#) at the time that the [introducing broker](#) becomes insolvent, bankrupt or ceases to be a member of a [self-regulatory organization](#) that is a participating institution in the Canadian Investment Protection Fund.

(m) Required Annual Disclosure

At least annually, the [introducing broker](#) shall provide written disclosure, in the form satisfactory to the Corporation, to each of its clients whose accounts are being carried by the [carrying broker](#), outlining the relationship between the [introducing broker](#) and the [carrying broker](#) and the relationship between such client and the [carrying broker](#). Notwithstanding the foregoing, if the name and role of each of the [introducing broker](#) and the [carrying broker](#) is shown on all contracts, statements, correspondence and other documentation in accordance with subparagraph (1) above, the [introducing broker](#) need not provide annual disclosure as required by this subparagraph (m).

(n) Clients Introduced to the Carrying Broker

Each client introduced to the [carrying broker](#) by the [introducing broker](#) shall be considered to be a client of the [carrying broker](#) for the purposes of the [Rules](#), Rulings and Forms.

(o) Responsibility for Compliance with all Non-Financial Exchange Requirements

Unless otherwise specified in this Rule 35.5, the [introducing broker](#) shall be responsible for the compliance with all non-financial requirements of the [Rules](#), Rulings and Forms of the Corporation for each account introduced to the [carrying broker](#) by the [introducing broker](#).

(p) Cash Transactions

The [introducing broker](#) may facilitate cash transactions on behalf of clients carried through the [carrying broker](#) through the use of an account in the name of either the [carrying broker](#) or the [introducing broker](#).

(q) Reporting of Principal Positions

The [introducing broker](#) shall report all principal positions carried by the [carrying broker](#) for the [introducing broker](#) as inventory on its Form 1 or Monthly Financial Report. The [carrying broker](#) shall report all principal positions of the [introducing broker](#) carried by it as a client account on its Form 1 or Monthly Financial Report.

35.6. Exemption for Arrangements Between a Dealer Member and a Foreign Affiliate

Notwithstanding the provisions of this Rule 35, on the application of a Dealer Member pursuant to Rule 20.25, the applicable District Council may exempt any arrangements between a Dealer Member and a Dealer Member's foreign [affiliate](#) pursuant to which the Dealer Member carries accounts of the foreign [affiliate](#) or its clients from the requirements of this Rule 35 (other than Rule 35.6) provided that the arrangements meet the following criteria:

(a) Exemption Applicable to Affiliates of the Member

The exemption in this Rule 35.6 shall apply only to arrangements between a Dealer Member and a foreign [affiliate](#) of the Dealer Member. The Dealer Member shall provide the Exchange with evidence satisfactory to the Exchange of such relationship and of the details of the arrangement between them.

(b) Disclosure of Relationship to Clients of Foreign Affiliate

The Dealer Member shall ensure that the foreign [affiliate](#), at least annually, provides written disclosure, in a form satisfactory to the Corporation, to each of the foreign affiliate's clients whose accounts are being carried by the Dealer Member, outlining the relationship between the Dealer Member and the Dealer Member's foreign [affiliate](#) and the relationship between the Dealer Member and the client of the foreign [affiliate](#), and outlining any limitations on coverage of such client accounts by the Canadian Investor Protection Fund.

(c) Approval by the Requisite Authority in the Foreign Affiliate's Jurisdiction

The exemption provided in this Rule 35.6 shall only be granted by the applicable District Council upon receipt by the Corporation of written approval from the regulatory authority in the foreign affiliate's jurisdiction acknowledging and approving the arrangement between the Dealer Member and the Dealer Member's foreign [affiliate](#).

(d) Responsibility for Compliance with Corporation Requirements

Foreign affiliates of a Dealer Member that have an arrangement with the Dealer Member as set out in this Rule 35.6, are not required to comply with the requirements of the [Rules](#), Rulings and Forms of the Corporation solely as a result of such an arrangement.

(e) Reporting of Balances

In calculating its risk adjusted capital required under Rule 17.1 and Form 1, the Dealer Member shall report one balance owing to or from its foreign [affiliate](#) in relation to the accounts of the clients which the Dealer Member is carrying on behalf of its foreign [affiliate](#) on its Form 1 or Monthly Financial Report.

(f) Segregation of Securities

The Dealer Member shall be responsible for segregating all securities which it holds for clients of its foreign [affiliate](#) in accordance with the segregation requirements of the [Rules](#).

(g) Insurance

The Dealer Member shall include all accounts introduced to it by its foreign [affiliate](#) in its calculation of the asset measurement for minimum Financial Institution Bond coverage for Clauses (A) through (E) under Rule 400.2.

