

RULE 400
INSURANCE

- 400.1. Mail Insurance - Every Dealer Member shall have mail insurance that covers 100% of losses arising from any out-going shipments of securities, negotiable or non-negotiable, by registered mail. The Corporation may exempt a Dealer Member from the requirements of Rule 400.1 if the Dealer Member delivers a written undertaking to the Corporation that it will not use registered mail for out-going shipments of securities.
- 400.2. Financial Institution Bond - Every Dealer Member shall, by means of a Financial Institution Bond or Bonds (with Discovery Rider attached or Discovery Provisions incorporated in the Bond), effect and keep in force insurance against losses arising as follows:
- Clause (A) - Fidelity - Any loss through any dishonest or fraudulent act of any of its employees, committed anywhere and whether committed alone or in collusion with others, including loss of property through any such act of any of the employees;
- Clause (B) - On Premises - Any loss of money and securities or other property through robbery, burglary, theft, hold-up or other fraudulent means, mysterious disappearance, damage or destruction while within any of the insured's offices, the offices of any banking institution or clearing house or within any recognized place of safe-deposit, as more fully defined in the Standard Form of Financial Institution Bond (herein referred to as the "Standard Form");
- Clause (C) - In Transit - Any loss of money and securities or other property (exceptions to be contained in a list to be approved by the Corporation); while in transit, whether negotiable or non-negotiable, shall be covered by insurance. The value of securities in transit in the custody of any employee or any person acting as a messenger shall not at any time exceed the protection provided under this clause;
- Clause (D) - Forgery or Alterations - Any loss through forgery or alteration of any cheques, drafts, promissory notes or other written orders or directions to pay sums in money, excluding securities, as more fully defined in the Standard Form;
- Clause (E) - Securities - Any loss through having purchased or acquired, sold or delivered, or extended any credit or acted upon securities or other written instruments which prove to have been forged, counterfeited, raised or altered, or lost or stolen, or through having guaranteed in writing or witnessed any signatures upon any transfers, assignments or other documents or written instruments, as more fully defined in the Standard Form.
- 400.3. Notice of Termination - Each Financial Institution Bond maintained by a Dealer Member shall contain a rider containing provisions to the following effect:
- (i) The underwriter shall notify the Corporation at least 30 days prior to the termination or cancellation of the Bond, except in the event of termination of the Bond due to:
- (A) The expiration of the Bond period specified;
- (B) Cancellation of the Bond as a result of the receipt of written notice from the insured of its desire to cancel the Bond;
- (C) The taking over of the insured by a receiver or other liquidator, or by provincial, federal or state officials, or
- (D) Taking over of the insured by another institution or entity.

- (ii) In the event of termination of the Bond as an entirety in accordance with clauses (i)(B), (i)(C) or (i)(D), the underwriter shall, upon becoming aware of such termination, give immediate written notice of the termination to the Corporation. Such notice shall not impair or delay the effectiveness of the termination.

400.3B. Termination or Cancellation - In the event of the take-over of a Dealer Member by another institution or entity as described in paragraph 400.3(a)(i)(D), the Dealer Member shall ensure that there is bond coverage which provides a period of twelve months from the date of such take-over within which to discover the losses, if any, sustained by the Dealer Member prior to the effective date of such take-over and the Dealer Member shall pay, or cause to be paid, any applicable additional premium.

400.4. Amounts Required - The minimum amount of insurance to be maintained for each Clause under Rule 400.2 shall be the greater of:

- (a) \$500,000, or, in the case of an Introducing Type 1 arrangement, \$200,000; and
- (b) 1% of the base amount (as defined herein), or in the case of Introducing Types 1 and 2 arrangements, ½% of the base amount;

provided that for each Clause such minimum amount need not exceed \$25,000,000.

For the purposes of this Rule 400, the term "**base amount**" shall mean the greater of:

- (i) The aggregate of net equity for each customer determined as the total value of cash, securities, and other acceptable property (as defined in Schedule 10 of Form 1) owed to the customers by the Dealer Member less the total value of cash, securities, and other acceptable property (as defined in Schedule 10 of Form 1) owed by the customers to the Dealer Member; and
- (ii) The aggregate of total liquid assets and total other allowable assets of the Dealer Member determined in accordance with Statement A of Form 1.

400.5. Provisos with respect to Rules 400.2, 400.3 and 400.4:

- (a) Repealed.
- (b) The amount of insurance required to be maintained by a Dealer Member shall as a minimum be by way of a Financial Institution Bond with a double aggregate limit or a provision for full reinstatement;
- (c) Should there be insufficient coverage, a Dealer Member shall be deemed to be complying with Rule 17.5 and this Rule 400 provided that any such deficiency does not exceed 10 percent of the insurance requirement and that evidence is furnished within two months of the dates of completion of the monthly financial report and the annual audit that the deficiency has been corrected. If the deficiency is 10% or more of the insurance requirement, action must be taken by the Dealer Member to correct the deficiency within 10 days of its determination and the Dealer Member shall immediately notify the Corporation;
- (d) Insurance against Clause (E) of Rule 400.2 losses (Securities) may be incorporated in the Financial Institution Bond or may be carried by means of a Rider attached thereto or by a Separate Securities Forgery Bond;
- (e) A Financial Institution Bond maintained pursuant to Rule 400.2 may contain a clause or rider stating that all claims made under the bond are subject to a deductible;
- (f) For the purposes of calculating insurance requirements, no distinction is to be made between securities in non-negotiable form and those in negotiable form.

- 400.6. Qualified Carriers - Insurance required to be effected and kept in force by a Dealer Member pursuant to this Rule 400 may be underwritten directly by either (i) an insurer registered or licensed under the laws of Canada or any province of Canada or (ii) any foreign insurer approved by the Corporation. No foreign insurer shall be approved by the Corporation unless the insurer has the minimum net worth required of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection and the Corporation is satisfied that the insurer is subject to supervision by regulatory authorities in the jurisdiction of incorporation of the insurer which is substantially similar to the supervision of insurance companies in Canada.
- 400.7. Global Financial Institution Bonds - Where the insurance maintained by a Dealer Member in respect of any of the requirements under this Rule 400 names as the insured or benefits the Dealer Member, together with any other person or group of persons, whether within Canada or elsewhere, the following must apply:
- (a) The Dealer Member shall have the right to claim directly against the insurer in respect of losses, and any payment or satisfaction of such losses shall be made directly to the Dealer Member; and
 - (b) The individual or aggregate limits under the policy may only be affected by claims made by or on behalf of
 - (i) The Dealer Member,
 - (ii) Any of the Dealer Member's subsidiaries whose financial results are consolidated with those of the Dealer Member, or
 - (iii) A [holding company](#) of the Dealer Member provided that the [holding company](#) does not carry on any business or own any investments other than its interest in the Member

without regard to the claims, experience or any other factor referable to any other person.