

**REPORT ON ACCOUNTANTS' PROCEDURES & FINDINGS FOR MINIMUM BOOKS AND RECORDS FOR NEW DEALER MEMBER APPLICANTS WITH PROPRIETARY EDP SERVICE PROVIDERS**

*(Note: Proprietary systems are defined as any record keeping platform not recognized by the Investment Industry Regulatory Organization of Canada. Recognized platforms currently include ISM, ADP and Dataphile)*

To: The Investment Industry Regulatory Organization of Canada ("IIROC")

We performed the following procedures as requested by the IIROC as at \_\_\_\_ in connection with the requirement for <Dealer Member> ("Dealer Member Applicant") to maintain the minimum books and records as outlined in the Rules of the IIROC. Compliance with the IIROC Rules with respect to the minimum books and records are the responsibility of the management of the Dealer Member Applicant. Our responsibility is to perform the procedures requested by you.

1. We compared the Dealer Member Applicant's books and records to the minimum items of information required for books and records, as prescribed by IIROC Rule 3800 as at \_\_\_\_\_.

***Findings:***

List exceptions noted.

2. We obtained the Dealer Member Applicant's accounting records as at \_\_\_\_\_ to determine whether such books and records provide for a double entry general ledger system, which reflects the assets, liabilities, income, expense and shareholders' equity accounts.

***Findings:***

List exceptions noted.

3. We obtained written representation from senior officers of the Dealer Member Applicant that the Dealer Member Applicant's books and records are capable of managing current business activities as of \_\_\_\_\_. We have reviewed the consummated contract between the EDP service provider and the New Dealer Member Applicant.

***Findings:***

List exceptions noted.

4. We read the Dealer Member Applicant's written internal control policies and procedures with respect to reconciliations between the general ledger, brokerage accounting system and other ancillary records to determine whether written procedures are documented therein to require the performance of such reconciliations.

***Findings:***

List exceptions noted.

5. We obtained a list as of \_\_\_\_\_ from management of the Dealer Member Applicant of the EDP systems or EDP interfaces that are used by the Dealer Member Applicant. We obtained from the Dealer Member Applicant its Third Party Internal Control Report covering control procedures over its Proprietary Systems as of \_\_\_\_\_ (or, for the year ended) \_\_\_\_\_. (In Canada a CSAE 3416 Report or SSAE 16 Report in the U.S.)

**Findings:**

We attach a list of the EDP systems or EDP interfaces that are used by the Dealer Member Applicant and the Third Party Internal Control Report over its Proprietary System.

6. We performed the following procedures with respect to risk adjusted capital:
  - a) We read the Dealer Member Applicant's written internal control procedures for performing the calculation of the risk adjusted capital.
  - b) We enquired of management of the Dealer Member Applicant whether such procedures would allow the Dealer Member Applicant to perform, at a minimum, weekly capital calculation in accordance with the Rules of the IIROC.
  - c) We agreed the Dealer Member Applicant's calculation of unaudited risk adjusted capital as at supporting documentation contained in the Dealer Member Applicant's books and records.

**Findings:**

List exceptions noted.

7. We performed the following procedures for the Dealer Member Applicant (who is an introducing broker):
  - a) We read the Introducing/Carrying Broker agreement and compared it to the Uniform Introducing/Carrying Broker agreement prescribed by the IIROC.
  - b) We compared the reports, which the Dealer Member Applicant will receive from its Carrying Broker as contained in Schedule B to the Uniform Introducing/Carrying Broker agreement prescribed by IIROC.

**Findings:**

List exceptions noted.

8. We performed the following additional procedures for the Dealer Member Applicant who is using a proprietary EDP System (non-ADP, ISM, Dataphile):
  - a) We have obtained a list from management of the Dealer Member Applicant of all the product lines to be transacted by the dealer Member Applicant. We selected a minimum of ten transaction types from each product line as at \_\_\_\_\_ and performed the following procedures for each transaction selected:
    - i) Agreed the transaction to the daily trading blotter or other record of original entry.
    - ii) Agreed the transaction to the "security and commodity record or ledger".
    - iii) Agreed that the transaction balance has been accumulated and captured on the relevant "general ledger" account.
    - iv) For agency transactions selected, we agreed the transaction to the customer "confirmation" and "monthly customer account statement".
    - v) For principal trades selected, we agreed the transaction to the appropriate security inventory account.

**Findings:**

List exceptions noted.

- b) We have obtained the Dealer Member Applicant's accounting records as at \_\_\_\_\_ to determine whether such books and records provide for a double entry security and commodity record or ledger which reflects all client and inventory security holdings.

**Findings:**

List exceptions noted.

- c) We have obtained the Dealer Member Applicant's segregation reports as at \_\_\_\_\_ and selected ten transactions for compliance with the segregation requirements of the IIROC.

**Findings:**

List exceptions noted.

- d) We have obtained the Dealer Member Applicant's security inventory reports as at \_\_\_\_\_ and selected ten security inventory positions and performed the following:
- i) Recalculated margin requirements in accordance with the applicable IIROC Rules.
  - ii) Agreed pricing of the securities to an external pricing source.
  - iii) Agreed the accumulated inventory margin required for a selected month to the appropriate Monthly Financial Report.

**Findings:**

List exceptions noted.

- e) We have obtained the Dealer Member Applicant's Client/Broker accounting records as at \_\_\_\_\_ and selected ten client accounts to ensure the following:
- i) Recalculated margin requirements in accordance with the applicable IIROC regulations.
  - ii) Agreed pricing of securities to an external pricing source.
  - iii) Agreed the client and broker balances to the Monthly Financial Report.

**Findings:**

List exceptions noted.

- f) We have obtained the Dealer Member Applicant's brokerage accounting system as at \_\_\_\_\_ and performed the following procedures:
- i) Client free credits - We agreed a minimum of ten free credit balances from the detail report used to calculate free credit balances by agreeing to source customer statements. We agreed the free credit in the client accounts in accordance with the applicable IIROC Rules.

- ii) Client net equity - We selected account statements for a minimum of ten clients. For each we calculated the Client Net Equity amount. We traced the Client Net Equity amount to the Total Client Net Equity Report to check that the compilation of Client Net Equity is in accordance with the applicable IIROC Rule. We agreed Total Client Net Equity from the report to Schedule 10.
- iii) Concentration of securities - We recalculated the top ten concentrated issuer positions in accordance with the applicable IIROC Rules.

**Findings:**

List exceptions noted.

- g) We have selected a minimum of ten client accounts as at \_\_\_\_\_ and agreed the counterparty classifications to the requirements of the IIROC Rules.

**Findings:**

List exceptions noted.

These procedures referred to above do not constitute an audit and therefore we express no audit opinion on the Dealer Member Applicant's responsibility to maintain and comply with the minimum books and records requirement as outlined in the Rules of the IIROC.

We make no representation as to the sufficiency or appropriateness or adequacy of these procedures to your needs. These procedures will not necessarily disclose all significant matters or reveal errors or irregularities. Had we performed other procedures, we might have found other results. We have no responsibility to update our report for events or circumstances occurring after date of our report.

This letter is confidential and intended solely for use by management, the Board of Directors and the IIROC in their assessment of the Dealer Member Applicant's compliance with the requirement to maintain minimum books and records as outlined in the Rules of the IIROC and is not to be used, circulated, quoted from or otherwise referred to for any other purpose without our prior written permission. We accept no liability for any third party use of or reliance on this report.

Audit Firm Name	City, Province
Signature	Date