



# Conduct and Practices Handbook

**UPDATE**

The discussion of the regulations in this material is accurate as of September 30, 2017

RELEASE DATE: December 27, 2017

CONTENT CHANGES EXAMINABLE: January 24, 2018



## EXAMINABLE CONTENT CHANGES - DISCLAIMER

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This document identifies the examinable content changes made to the CPH textbook you received when enrolling in the course. Students are advised that this document only captures changes deemed to have an impact on exams and exam preparation. Other changes, such as rewording content, deleting non-examinable material, or other minor changes that do not have an exam impact are not included here.

## HOW TO USE THIS DOCUMENT:

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This document summarizes changes to examinable content that were made to this course during this update. Any changes to the sequence of the chapters or course structure will also be noted in this update document.

As part of our commitment to the highest quality learning products, we, at CSI Global Education Inc. regularly update our course material. You have received this document because we have updated the **Conduct and Practices Handbook** and released this update on **December 27, 2017**.

On **January 24, 2018**, the new updated material will become examinable. You have the following options with respect to the update and whether you wish to be examined on the original content or the updated content:

**Option 1:** If you book and write your exam prior to the changeover date for examinable content, you can study for the exam using only your original course material and textbook.

**Option 2:** If you write your exam on or after the changeover date, you will either need to study from the original textbook *plus this update document* or you may study from the PDF of the new textbook which contains the updated content within the text.

***This update document describes the content changes made to your CPH textbook. These changes have been incorporated into the PDF of the textbook that is available online. When updating your text, please follow the instructions below as indicated.***

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## CHAPTER 2: REGULATION OF THE SECURITIES INDUSTRY

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### Section: The Exchanges and Marketplaces in Canada

**Please delete the table and replace with the following:**

#### **Aequitas Innovations**

##### *Aequitas NEO Exchange*

Aequitas NEO Exchange is an exchange that provides listing services and facilitates trading in securities listed on Aequitas NEO Exchange, TSX and TSXV. Aequitas NEO Exchange operates two separate trading books, the NEO-N Book and the NEO-L Book, and a crossing facility which for the purposes of UMIR are considered separate marketplaces. Aequitas NEO Exchange has retained IIROC to administer its timely disclosure requirements for securities listed on Aequitas NEO Exchange.

##### *NEO-N Book*

The NEO-N Book provides trading in securities listed on Aequitas NEO Exchange, TSX and TSXV. The NEO-N Book subjects certain active orders to a delay as determined by Aequitas NEO Exchange. Order price and volume information (aggregated by price) is publicly available.

##### *NEO-L Book*

The NEO-L Book provides trading in securities listed on Aequitas NEO Exchange, TSX and TSXV. Order price and volume information is publicly available.

##### *Crossing Facility*

The Crossing Facility provides for the crossing of securities listed on Aequitas NEO Exchange, TSX and TSXV.

#### **Bloomberg Tradebook**

Bloomberg Tradebook Canada is an ATS that operates an order routing system that allows institutional investors to trade in equity and fixed income securities listed domestically and internationally.

#### **Canadian Securities Exchange (CSE)**

CSE is an exchange that provides listing services and facilitates trading on securities listed on CSE, TSX and TSXV. The trading service was previously a distinctly branded facility operated by CNSX Markets Inc. and referred to as Pure Trading. Order price and volume information is publicly available. CSE has retained IIROC to administer its timely disclosure requirements for securities listed on CSE.

#### **Instinet Canada Cross Limited (ICX)**

ICX is an ATS that provides trading in securities listed on the TSX through two facilities: VWAP Cross (for volume-weighted average price trading) and BLX Cross (a hybrid of continuous and point-in-time matching). No pre-trade information on Participants, order size or pricing is publicly available.

### **Liquidnet Canada Inc. (Liquidnet)**

Liquidnet is an ATS that provides trading in securities for Participants and Access Persons. Liquidnet enables Access Persons to trade securities directly and anonymously with other Access Persons. The Liquidnet system facilitates negotiation between parties placing compatible orders in securities listed on TSX or TSXV and routes orders for securities traded on foreign exchanges. No pre-trade information on Participants, Access Persons, order size or pricing is publicly available.

### **Nasdaq CX**

#### *Nasdaq CXC (NCXC)*

NCXC is an ATS that provides trading in securities listed on TSX and TSXV. Order price and volume information is publicly available.

#### *Nasdaq CX2*

NCX2 is an ATS that provides trading in securities listed on TSX and TSXV. Order price and volume information is publicly available.

### **Omega ATS**

#### *OMEGA ATS (Omega)*

Omega is an ATS that provides trading in securities listed on TSX, TSXV and CSE. Order price and volume information is publicly available.

#### *Lynx ATS (Lynx)*

Lynx is an ATS that provides trading in securities listed on TSX, TSXV and CSE. Order price and volume information is publicly available.

### **TMX Group**

#### *The Toronto Stock Exchange (TSX)*

TSX is an exchange that provides listing services and facilitates trading in securities listed on TSX. Order price and volume information is publicly available. TSX has also retained IIROC to administer its timely disclosure requirements for securities listed on TSX.

#### *TSX Venture Exchange (TSXV)*

TSXV is an exchange that provides listing services and facilitates trading in securities listed on TSXV. Order price and volume information is publicly available. TSXV has also retained IIROC to provide the following services:

- Administer TSXV's timely disclosure requirements
- Monitor compliance with TSXV policies relating to normal course issuer bids
- Conduct certain post-trade analysis in respect of the Canadian Unlisted Board market

#### *Alpha Exchange*

Alpha Exchange is an exchange that provides trading in securities listed on TSX and TSXV. Order price and volume information is publicly available.

### **TriAct Canada Marketplace (Match Now)**

MATCH Now is an ATS that provides trading in securities listed on TSX and TSXV. No pre-trade information on Participants, order size or pricing is publicly available.

Source: <http://www.iiroc.ca/industry/Pages/Equity-Marketplaces-We-Regulate.aspx>

## CHAPTER 2: REGULATION OF THE SECURITIES INDUSTRY

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### Heading: **Anti-Money Laundering and Anti-Terrorist Financing Regulations**

**Please delete the content following the fourth bullet point and replace with the following:**

- Dealer members are required to determine whether they are dealing with a foreign or domestic Politically Exposed Person (PEP), or a Head of an International Organization (HIO) established by the governments of more than one country. A foreign PEP is a person who “holds or has held an office or position in or on behalf of a foreign state.” A domestic PEP is a person who holds a specific office on or behalf of a Canadian federal, provincial, or municipal government.

When a dealer member has determined that a client is a foreign PEP, it must take reasonable measures to establish the source of any funds deposited or expected to be deposited to the account and obtain the approval of senior management to keep the account open within 30 days of the account being activated. For existing accounts for which the client is found to be a foreign PEP, the approval must be completed within 30 days of the determination that the client is a foreign PEP. Upon approval to deal or continue dealing with the foreign PEP, the dealer member must conduct enhanced, ongoing monitoring of the activity in the foreign PEP’s accounts. This also includes the spouse, common-law partner, child, mother, father, brother, sister spouse’s or common-law partner’s mother or father of any such person. It should be noted that the definition of a foreign PEP only covers those holding such positions in a national state, not those holding offices in provinces or municipalities.

If a dealer member determines that they are dealing with a domestic PEP, a HIO or a family member of a domestic PEP or HIO, the dealer must perform a risk assessment to determine if the individual is a high risk for money laundering. If yes, the dealer must also take reasonable measures to determine source of funds in the account and obtain senior management approval to keep the account open within 30 days.

## CHAPTER 3: REGISTRATION OF SECURITIES INDUSTRY PARTICIPANTS

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### Heading: **Proficiency Requirements and Categories of Individual Registration**

#### Sub-Heading: **Continuing Education**

**Please delete this section and replace with the following:**

#### CONTINUING EDUCATION

Continuing education (CE) is fundamental in most knowledge-based industries and is a requirement for ongoing licensing in the Canadian securities industry. With the growing complexity of the industry and its products, this requirement ensures that proficiency is maintained and that financial service professionals stay abreast of product developments, legal and compliance issues, emerging industry trends and other capital market developments.

The IIROC CE program requires applicable Approved Persons (i.e., RRs, IRs, traders) to meet continuing education requirements to enhance and further develop their baseline licensing proficiencies. The IIROC CE program consists of two parts: compliance training and professional development training. Retail RRs and Supervisors of retail RRs are required to complete approved courses to satisfy the compliance and professional development portions of the program. Non-retail RRs, such as those that deal with institutions only, along with IRs and Supervisors of IRs are only required to complete the compliance portion of the program.

The training requirements must be completed within each CE cycle. Dealer members are required to obtain documentary proof of completion of any course or seminar and records must be kept until the end of the cycle following the cycle to which the course is applied.

Dealer members can design and deliver their own compliance and professional development courses or their employees can take CE courses from several approved sources including the Canadian Securities Institute (CSI) and other educational providers. Dealer members have discretion to approve CE courses on the basis of guidelines prepared by IIROC and are responsible for reporting each employee's completion of CE requirements to the SRO responsible for approving them. If a registrant has not completed the required courses at the end of the CE cycle, penalties will be invoked. IIROC's online reporting system allows dealer members to view the requirements for each registrant and to report the completion of each individual's Compliance and Professional Development requirements.

If an individual transfers to a another dealer member, partial or unreported CE credits can also be transferred and the new dealer member is allowed to accept a statement of verification from the previous employer regarding both in-house and third party courses and seminars.

A full list of accredited courses from all vendors is available at [www.ccap.ca](http://www.ccap.ca).

NI 31-103 and IIROC set requirements for initial and continuing registration of dealing representatives, who are referred to, and registered as Registered Representatives ("RRs") or Investment Representatives ("IRs") under IIROC. In order to trade in other products such as futures or options, a representative must complete the necessary proficiency requirements, following which notice is given to IIROC; no approval is necessary.

IIROC must also be given notice of the customer type (retail or institutional) and the products that the Representative will trade. The same applies to persons who have the proficiency to handle managed accounts. They are registered as Registered Representatives, with a notation of portfolio management.

The following are the most common registration categories for individuals:

CHAPTER 4: ACCOUNT OPENING PROCEDURES

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**Heading: Opening Accounts**

**Sub-Heading: Client Identification Requirements: Anti-Money Laundering**

**Please delete the paragraph beginning with “Dealing with non-resident individual accounts...” and replace with the following:**

Dealing with non-resident individual accounts may require additional identity verification requirements than those set out for resident individual accounts. Viewing a current passport or other valid government identification, however, will fulfill identification requirements. This method requires a review of the original document in the presence of the person. If the individual is not in Canada, an agent in the client’s home country may have to be hired to conduct the verification. It is not sufficient to simply obtain a copy of the document, even if the copy is notarized, nor can you accept verification from an agent of the client, such as a lawyer or accountant.

Procedures should be in place to identify accounts maintained for senior government officials, their immediate family members and their close associates (often referred to as politically exposed persons, or “PEPs”). This is a particular concern when dealing with offshore accounts. This protects dealer members from unknowingly dealing with the proceeds of embezzlement or corruption. Furthermore, when opening accounts for a personal holding company or personal investment corporation, the IA must take steps to determine whether the account is being set up by, or for the benefit of, a senior public official or politically exposed person.

CHAPTER 4: ACCOUNT OPENING PROCEDURES

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**Heading: Opening Accounts**

**Sub-Heading: Client Identification Requirements: Anti-Money Laundering**

**Please delete the three paragraphs beginning at “The standard for verification...” and ending at “...and public databases.” Please also delete the paragraph beginning at “Also when dealing with offshore clients...” There is no replacement text.**



## CHAPTER 6: PLACING ORDERS FOR SECURITIES

**Heading: How Securities are Traded**

**Sub-Heading: Standard Trading Units**

Please delete the paragraph beginning at “Exhibit 6.2...” and the ensuing exhibit and replace with the following:

**Exhibit 6.2** shows the regular settlement periods for certain securities. On September 5, 2017, Canadian (and American) securities markets moved from a maximum standard settlement cycle of T+3 (Trade date plus three business days) to T+2 for most securities.

### EXHIBIT 6.2 REGULAR SETTLEMENT PERIODS

T = Trade date

T + 0 = Same day settlement (T + 1 if transaction occurs late in trading day)

T + 2 = Trade date plus two business days

Security	Settlement Date/Period
Government of Canada treasury bills	Same day ( T + 0 )
Government bonds other than treasury bills	T + 2
Preferred and common shares	T + 2

## CHAPTER 6: PLACING ORDERS FOR SECURITIES

**Heading: Types of Orders**

**Sub-Heading: Best Execution**

Please delete this section and replace with the following:

### Best Execution

Best execution requirements are set out in IIROC rules. The concept of best execution takes into account a number of aspects of a trade and is not limited to price. There is no simple, purely objective definition of best execution and, often, many factors may be relevant in assessing what constitutes best execution in any particular circumstance. Although best execution has often been equated with achieving the best price, the best execution obligation should be viewed as separate and distinct from obligations related to better-priced orders. Best execution has also been described as a process, rather than an outcome for each trade.

Dealer members must therefore establish, maintain, and ensure compliance with written policies and procedures that are reasonably designed to achieve best execution when acting for a client.

Dealers must consider the following factors for the purpose of achieving best execution for all client orders:

- price;
- speed of execution;
- certainty of execution; and
- total transaction cost.

Best execution also refers to the period of time during which the order is handled, not merely the precise moment in time that it is executed, with the following factors considered:

- prices and volumes of the last sale and previous trades;
- direction of the market for the security;
- posted size on the bid and offer;
- size of the spread; and
- liquidity of the security.

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## CHAPTER 6: PLACING ORDERS FOR SECURITIES

**Heading: Settlement of Trades**

**Sub-Heading: Trading Ex-Dividends and Ex-Rights**

**Please delete the paragraph and replace with the following:**

Trades are ex-dividend, ex-rights or ex-subscription privileges, as the case may be, on the full business day preceding the record date or the date of the closing of the transfer books. Should the record date or closing date occur on a holiday or half-holiday, this rule applies for the second preceding full business day.

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## CHAPTER 7: CASH AND MARGIN ACCOUNT RULES

**Heading: Cash Accounts**

**Sub-Heading: Purchases of Securities**

**Please delete “...normally three business days after the date of purchase” from the first sentence.**

CHAPTER 7: CASH AND MARGIN ACCOUNT RULES

**Heading: Cash Accounts**

**Sub-Heading: Dealing with Overdue Cash Accounts**

Please delete “Example #1” and replace with the following:

**Example #1:** 1,000 shares of QRS were purchased at \$37 on Wednesday, January 24. Two business days later, the settlement date of Friday, January 26 passed without payment by the client. A statement is mailed to the client on January 31, at which time the account is three business days overdue. In the meantime, QRS has declined from its \$37 purchase price to \$36.50.

Consider the account statement below:

Cash Accounts Galore Inc				Period ended: January 31, 20XX			
Mr. Robert Brown		Account Type:		Oldest outstanding trade			
156 Akmar Avenue		Regular Cash Account		3 Business Days			
City, Prov., W3N 2N2		Canadian Funds					
Commission	Value Date	Bought/Receive	Sold	Security	Entry Balance	Amount	Balance
100.00	Jan. 24	1,000		QRS Co.	37,000 DR	37,100 DR	37,100 DR

CHAPTER 7: CASH AND MARGIN ACCOUNT RULES

**Heading: Cash Accounts**

**Sub-Heading: Dealing with Overdue Cash Accounts**

Please change “Three business days” to “Two business days” in Section 1 of Exhibit 7.1.

CHAPTER 8: COMMUNICATIONS WITH CLIENTS

**Heading: Handling Client Complaints**

**Sub-Heading: ComSet**

Please delete the “Comset Statistics” table and replace with the following:

COMSET STATISTICS						
Events Reported	2016	2015	2014	2013	2012	2011
Civil Claim	125	152	186	333	350	266
Criminal Charge	2	7	3	8	12	11
Customer Complaint	1,207	1,076	1,057	1,307	1,529	1,285
Denial of Registration or Approval	0	0	0	0	0	0
External Disciplinary Action	2	4	3	3	6	16
Internal Disciplinary Action	41	54	37	29	17	22
Internal Investigation	60	59	69	65	72	109
<b>Totals:</b>	<b>1,437</b>	<b>1,352</b>	<b>1,355</b>	<b>1,745</b>	<b>1,986</b>	<b>1,709</b>

## CHAPTER 8: COMMUNICATIONS WITH CLIENTS

### Heading: Handling Client Complaints

#### Sub-Heading: How Clients Can Seek Compensation

Please delete the “Obsi Statistics” table and replace with the following:

#### OBSI STATISTICS – MAJOR ISSUES IN 2016

The number of Investment Issues handled by OBSI in 2016 is shown by category below:

Issue	# of Cases	% of Cases
Suitability	91	27
Suitability of Margin or Leverage	51	15
Incomplete or Inaccurate Disclosure About a Product	36	11
Fee Disclosure	34	10
Instructions Not Followed	22	7
Service Issue	18	5
Inappropriate Advice	14	4
Transfer Delay	12	4
Performance	10	3
Transaction Errors	10	3
Other	9	3
Unauthorized Trading or Churning	7	2
Fraud	4	1
Inappropriate Investment Strategy	4	1
Privacy	4	1
Outside Business Activity, Off-Book Transaction	3	1
Margin Issues	2	1
Elder Abuse	1	<1
Power of Attorney	1	<1

Source: <https://www.obsi.ca/en/news-and-publications>



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