

# **POLICIES AND PROCEDURES MANUAL**

## **Chapter 4 : CLIENTS ACCOUNTS**



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## 4. Clients accounts

### 4.1 Know Your Client Form and suitability

#### 4.1.1 Know Your Client Form

Compliance with the “know your client” rule (KYC) is one of the fundamental obligations of each registered representative assigned to the client’s account. This responsibility may not be delegated to another person.

Each representative must show diligence:

- by learning essential facts about each client (i.e., age, net assets and income, investment knowledge, investment goals, etc.) before opening an account and by keeping such knowledge up to date throughout the relationship with the client;
- by knowing essential facts about each order accepted and ensuring that the order and its acceptance are based on sound business practices; and
- by ensuring that recommendations made for an account are appropriate for the client and that they are in keeping with the client’s investment goals.

The “know your client” rule serves the client and the firm as well as the representative. Having detailed information on the client’s financial position and goals puts a representative in a better position to determine whether trades are appropriate for the client.

A representative must use due diligence to learn and remain informed of the essential facts relative to every order, account and client that is accepted, and to establish the identity of every new client by using such methods that allow PEAK to form a reasonable belief that it knows the identity of the individual within 30 days of opening the account and, if there is any cause for concern, make inquiries as to the reputation of the client.

If the identity of the client cannot be established within 30 days of opening an account, PEAK must restrict the account solely to liquidating trades, transfers, or paying out funds. These account restrictions must remain in place until the individual’s identity is established.

Representatives must complete an account opening form for each new account opened by a client in accordance with the requirements set out in this Manual and the MFDA Rules.

Representatives must take reasonable steps to keep the information in the account application current. Mandatory updates must be performed every 36 months. Those updates must be done with the Know your client form – Update.

A representative who opens a new account for a client must complete certain forms with the client, including the *Know Your Client Form*. The representative must also give the client the *Relationship Disclosure Document* (RDD), the appropriate prospectus or fund facts and all necessary information concerning the proposed products (charges, product type), to ensure that he properly fulfills his information obligation. He must also ensure that the client understands the type of product offered and its characteristics.

All the information requested on the account opening forms is mandatory. The disclosures included in the forms must also be read and explained to the client. This information is required by the regulatory authorities. It is obligatory to complete all the sections of the Know Your Client Form and to keep this information up to date. This information is required, among other things, for monitoring of money laundering and terrorist activity financing, to comply with regulatory requirements under the Foreign Account Tax Compliance Act (FATCA) and to determine whether the portfolio still corresponds to the client's expectations.

Accounts may be consolidated on the Know Your Client Form if the investment strategy applies to all the accounts and all the consolidated accounts are held by the same owner(s). To be able to consolidate accounts, the client must confirm that the investment objectives, risk tolerance and investment horizon correspond to all the consolidated accounts. Consolidated accounts are identified as such in the various systems.

When an information on the KYC form is missing, the system will automatically block the account opening if this information is related to an invalid address or any information related to the investor's profile. For any other missing information, the account will be restricted until the information is provided. The representative will have 25 days to provide the missing information.

The following sections provide definitions of the elements to be considered to establish the investor's profile. These definitions are also summarized on the Know Your Client Form.

#### 4.1.1.1 Investment knowledge

The client's knowledge of investments and financial markets will have an impact on the recommendations that can be made, because the client must have a good understanding of the characteristics and risks of recommended products.

The representative must demonstrate a great deal of caution in making recommendations to a client whose knowledge is poor, especially if the client says he has a high-risk tolerance. With limited knowledge of investments and financial markets, it is unlikely that such a client understands all the various risks associated with a growth or maximum growth strategy.

The representative must select which of the following levels corresponds best to the client's knowledge.

##### **Poor:**

The client has limited knowledge of investments and financial markets and will rely on the representative.

##### **Fair:**

The client has some knowledge of investments and financial markets but will need information and guidance from the representative.

##### **Good:**

The client has good knowledge of investments and financial markets and is aware of information reported by the media.

**Sophisticated:**

The client has a solid knowledge of investments and financial markets, understands the various investment products and follows the financial markets closely.

**4.1.1.2 Investment horizon**

The investment horizon is the period from the present until the time when the client will need to withdraw a substantial portion of his invested assets (more than 30%). The client must specify the time horizon for the products that he wants to acquire. It should be noted that the investment horizon may vary from one type of account to another.

**4.1.1.3 Risk capacity and risk tolerance**

The advisor must determine both the risk capacity and risk tolerance of the client. The risk capacity of the client considers his age, net worth, income (stability and amount), and investment percentage as a function of total assets. In other words, risk capacity uses the client's demographical information to determine his ability to assume financial losses.

Risk tolerance is a function of the client's nervousness in response to fluctuations in returns and his expectations of the financial market over the short and long terms. It is his psychological and emotional comfort in relation to changes in his portfolio and is based on his convictions and personality.

Clients should also consider the following elements to establish their risk tolerance:

- Amounts invested in a mutual fund are not covered by Canada deposit insurance or other government deposit insurance programs. Thus, there is no guarantee that they will be able to recover all the amounts invested.
- Mutual funds are sold and redeemed based on their net asset value at the time of the transaction. Net asset value fluctuates along with changes in the market value of the securities that make up a fund.
- Fluctuations in a fund's net asset value are due to various factors, including changes in interest rates, the global economy and the economies of the countries that the securities come from as well as market developments.
- The net asset value of a fund will increase or decrease on a daily basis. On redemption, it could, therefore, be less than or greater than its value at the time of the initial purchase.
- A fund may suspend redemptions in exceptional circumstances.

To determine the client's overall risk profile, the advisor should lean toward the more conservative between Risk Capacity and Risk Tolerance.

The advisor should ensure proper notes are documented in the client file on the client's risk capacity and risk tolerance and how it was translated to the KYC.

For each account, the percentage risk tolerance of the client must be indicated on the KYC:

### **Low**

Low-risk investments exhibit low volatility and are suitable for investors who are prepared to accept lower returns for the sake of greater capital preservation; they may include Canada Savings Bonds, guaranteed investment certificates and money market funds.

### **Low to medium**

Investments with a low-to-medium risk exhibit low-to-moderate volatility; they may include bond funds and balanced funds.

### **Medium**

Medium-risk investments exhibit moderate volatility and are appropriate for investors who seek moderate growth; they may include dividend funds, equity funds and some types of fixed income funds.

### **Medium to high**

Investments with medium-to-high risk exhibit moderate-to-high volatility and are appropriate for investors who seek a higher level of growth; they may include funds that invest in small companies and specific market sectors or geographic areas.

### **High**

High-risk investments exhibit strong volatility and are appropriate for investors who seek a high level of growth; they may include labour-sponsored funds or funds that invest in specific market sectors or geographic areas, such as science and technology and emerging markets.

#### **4.1.1.4 Investment objective**

The client's investment horizon and risk tolerance have a direct impact on the types of investment that may be suitable. When you determine your client's objectives along with him, you must pay special attention to investment horizon and risk tolerance, as defined above.

The objectives that you set must be realistic as a function of the time that the client has to achieve them and the risk that he is prepared to assume.

For example, a client who has a risk horizon of 1 to 3 years and an objective of 100% growth has little chance of achieving that objective in such a short period. Investments associated with such an objective are intended mainly for clients with a long-term investment horizon.

Similarly, a client must have the required risk tolerance to support his investment objectives. A client who has a 100% low risk tolerance and an objective of 100% growth



and maximum growth combined does not have the level of risk tolerance for investments that correspond to such an objective.

The representative should be able to identify which of the four investment objectives is suitable for the client. A client may also have more than one objective and allocate his objectives as percentages.

### **Liquidity**

The client's objective is capital preservation, and he is less concerned with capital appreciation or income. Investments corresponding to this objective may include money market funds and guaranteed investment certificates.

### **Income**

The client's objective is to generate current income from his investments, and he is less concerned with capital appreciation. Such investments are less volatile by nature. Investments suited to this objective may include mutual funds that invest in fixed income products, such as monthly income funds and bond funds.

### **Growth**

The client's objective is capital appreciation, and current income from investments is not a requirement. Such investments generally exhibit more volatility and are suitable for investors with a higher risk tolerance. Investments corresponding to this objective may include mutual funds that invest in equities.

### **Maximum growth**

The client's objective is capital appreciation, and current income from investments is not a requirement. Such investments generally exhibit a higher level of volatility and are suitable for investors with a high degree of risk tolerance. Investments that correspond to this objective may include mutual funds that invest in more volatile sectors, such as natural resources, technology and emerging markets.

#### **4.1.1.5 policy on determination of the investors' profile for clients aged 70 or older**

In the case of clients who are aged 70 or older, special attention must be paid to their time horizon, investment objectives and risk tolerance.

- *Time horizon:* The investment horizon is the period from the present until the time when the client will need to withdraw a substantial portion of his invested assets (30% or more). A time horizon of 10 years or more is not necessarily deemed unreasonable for seniors when taking this factor into consideration on its own. However, when a longer time horizon is looked at in conjunction with higher risk tolerances and/or most growth-oriented investments, this is generally deemed unsuitable for seniors.
- *Investment objectives:* This type of client should generally not have a high proportion of growth and maximum growth objectives.

- *Risk tolerance*: Given that risk tolerance should decrease with age and life expectancy, a client aged 70 or older should generally not have a risk tolerance ranging from medium-high to high.

It is the representative's responsibility to assess, justify and further document the client's personal and financial situation by paying special attention to:

- the time when the client expects to need a substantial amount of cash;
- the client's ability to cover living expenses;
- the existence of sufficient liquid assets to cope with an emergency; and
- the client's personal situation to justify the time horizon demonstrating that he does not plan to redeem a substantial portion of his assets (30% or more) during the period defined by the time horizon.

Representatives are urged to document and justify any deviation from the rule, directly in the system, by adding notes to the client's file. If an inconsistency is detected, an intervention will be sent and, in the absence of rigorous documentation, corrective measures could be requested. The compliance agent will take action only if additional information is required.

These criteria are analyzed during approval of the Know Your Client Form and daily oversight of transactions. The compliance agent will assess the reasonableness of the KYC information while considering the investor's profile as a whole.

#### 4.1.1.6 KYC patterns

Representatives must be diligent when they obtain investor's profile information for the KYC form. It is important to ensure that the information entered corresponds to the client's investment objectives and risk tolerance as a function of their specific needs. It is unlikely that many clients have the same objectives and risk tolerance.

An annual KYC pattern report is run at the beginning of the year to identify advisors with potential KYC pattern issues. This report will be a component of the advisors' annual risk assessment. If a KYC pattern is identified, the advisor will automatically be rated as high risk and will be subject to an internal audit in the first quarter (or early second quarter). As part of the inspection, an in-depth assessment of the KYC pattern will be done and an Action Plan will be put in place with the advisor to address the situation.

The KYC pattern report is also run on an ad hoc basis should the need arise. The branch manager is responsible for remaining vigilant in detecting a KYC pattern. In case of doubt, he must contact the Compliance Department, which can do an in-depth review and produce an analytical report.

A representative must pay a special attention to this matter and be vigilant when to obtain information for an investor's profile to ensure that it is complete and accurate and corresponds to the client's situation.

#### 4.1.2 Investor questionnaire

To properly assess the investor's profile that will be documented in the Know Your Client Form, representatives are strongly recommended to use the PEAK Investor Profile Questionnaire. The questionnaire is harmonized with the Know Your Client Form. Although the use of the PEAK Investor Profile Questionnaire (IPQ) is not mandatory (but strongly recommended), the use of any other questionnaire whether internal or external, is prohibited. Finally, using the questionnaire does not relieve the representative of the obligation to update the Know Your Client Form, which remains the only valid document.

If the result of the Investor Questionnaire diverges from the Know Your Client Form, details of the discussions and reasoning that enabled the representative to conclude that the client is comfortable with the investor profile in the form must be adequately documented in the file.

The use of the Investor Questionnaire will be reviewed through branch compliance inspections for consistency with the Know Your Client Form. Any discrepancy will be questioned, and corrective measures could be requested.

#### 4.1.3 New account approval

All newly opened accounts must be approved within 24 hours after the initial trade by a branch manager or a Compliance Department analyst. To enable them to complete this approval within 24 hours, representatives must send them the account opening documents without delay and must respond promptly to any request for additional information.

All forms and documents received by PEAK are identified by the client's social insurance number and kept at Head Office. The representative also keeps, in a client file at his place of business, all forms and information concerning the client.

#### 4.1.4 Information update

##### 4.1.4.1 Material change in the client's personal or financial situation

The information in the Know Your Client Form must be updated as soon as the representative becomes aware of a change in the client's personal or financial situation. (such as, but not limited to, marriage, birth of a child, large lottery win, inheritance, divorce, job loss, career change or precarious circumstances). Know Your Client forms must also be updated at least every 36 months as per NI 31-103, section 13.2(4.1) c).

Changes to a client's stated risk tolerance, time horizon or investment objectives or changes that have a significant impact on the client's net worth or income are considered material changes.

The platforms will trigger a suitability analysis when there is a material change. The Branch Manager or Compliance Officer will verify the suitability to make sure that the changes and the client's portfolio are aligned. The Branch Manager or Compliance Officer must approve all material changes to client information within one business day after the

information change is received from the client. When approving material changes, Branch Manager or Compliance Officer must consider the following elements:

- assess the reasonableness of the change as compared to the previous information
- Be aware where changes may have been made to justify trades or leveraging which was inappropriate with the previous information
- Investigate trades in high-risk investments or leveraged trades
- Investigate changes made within a short period of time, i.e. 6 months
- Verify that the necessary client signature or authorization was obtained.

If the Branch Manager or Compliance Officer does not approve the changes, an intervention will be sent to the representative who will have 25 days to align the changes or else the account will be restricted.

Representatives must take care to communicate regularly with their clients and to ask whether significant changes have occurred since their latest communication. Client profiles must be updated at least every 36 months, even if there are no significant changes.

Any update must be approved within 24 hours.

#### 4.1.4.2 Non-financial personal information changes communicated by the client

Representatives must also pay special attention to non-financial changes that could affect a client's situation.

Non-financial personal information changes involve mainly:

- a change of name
- address or telephone number
- beneficiary (not applicable in Quebec)
- changes to a bank account
- consent to electronic delivery and electronic access to documents
- a request for temporary hold-mail service
- change to the trusted contact person.

Such changes must be made with the *Non-Financial Information Change Form*, signed and dated by the client. The form must be sent to the representative's branch or to Head Office, where it will be checked.

If the change involves a bank account, a specimen cheque with up-to-date information must accompany the form.

If a client asks for temporary hold-mail service, the representative should propose to his client electronic statement via *MyPEAKonline* to provide documents to the client. If the client does not have the technology to access *MyPEAKonline*, an exception may be made and mail may be held for a maximum of 6 months. To make a request to the Account Opening Department, the representative must provide:

- a signed and dated *Non-Financial Change Form*
- the start date for the hold-mail service
- the end date for the hold-mail service, and
- the reasons for the request.

PEAK will perform monitoring to ensure that the hold on the mail is lifted at the end of the authorized period.

#### 4.1.4.3 Returned mail – wrong address

When mail intended for a client is returned with “wrong address” on the envelope, the information on the returned mail (including the date) is entered in the client’s file in the system. A message is sent to the representative to inform him that mail has been returned and that he has 90 days to submit a *Non-Financial Change Form* with the client’s new address.

Quarterly monitoring is carried out to detect incorrect addresses that have not been corrected within the 90-day period. A restriction is placed on such accounts, for which only redemptions are authorized.

#### 4.1.5 Dealer’s Change of Representative form (continuity of services)

When a client transfer request is completed according to continuity of services, KYC forms must accompany each *Change of Representative* form from the Dealer, whether or not the client is already a client of the Dealer. A simplifying KYC form is sufficient for existent clients.

#### 4.1.6 FATCA and CRS requirements

##### 4.1.6.1 FATCA

The Foreign Account Tax Compliance Act (FATCA) came into force on July 1, 2014.

Representatives must ensure that, for any new client applications after that date, they adhere to the following:

FATCA affects only those clients who are defined as “U.S. persons,” namely:

a) individuals with U.S. citizenship (whether they reside permanently in the United States or in another country, such as Canada);

OR

b) permanent residents of the United States including Green Card Holders.

**It is important to note that Canadian residents/citizens who visit the United States on a non-permanent basis (persons commonly referred to as “snowbirds”) are not considered U.S. persons under FATCA and are therefore not affected by FATCA.**

**Which types of client accounts are subject to FATCA?**

As stated above, only U.S. persons are affected by FATCA. It also depends on the type of account that such U.S. persons hold with the Dealer.

In that regard, only the following type of account is subject to FATCA:

- **Non-registered accounts held by U.S. persons, whether held in client name or nominee, with an account balance of US\$50,000 or more.**

**Registered accounts** (RRSPs, TFSAs, RRIFs, RESPs, RDSPs, and locked-in plans, such as LIFs, LRIFs and LRSPs) **held by U.S. persons are not subject to FATCA**, although they may be subject to other requirements and relevant jurisdictional legislation, especially in the United States.

Representatives must ask each account holder associated with a client account his/her country of birth, as well as whether he/she has a U.S. citizenship or U.S. permanent residency status, and complete the fields according to the answers received. If the client was born in the USA or has a permanent residence in the US, the Tax Identifier Number (TIN) / U.S. Social Security Number (SSN) must be completed, if applicable.

#### 4.1.6.2 CRS

The common reporting standard came into force in January 1<sup>st</sup>, 2017. Similar to FATCA, it was developed by the OECD to reduce tax evasion and improve tax compliance around the world. Countries have agreed to exchange information on account holders. Therefore, we must collect information about the residency status of our clients in order to comply with CRS.

Non-residents of Canada must provide their Tax Identification Number (TIN) on their account opening form. Account opening applications will be rejected if the client refuses to provide his foreign TIN.

## 4.2 Know Your Product

For the purpose of the suitability analysis, PEAK's registered representatives must understand the structure and features of the products they buy, sell for, or recommend to, their clients, including initial and on-going costs and fees, risks and eligibility requirements (commonly referred to as "Know Your Product" or "KYP").

Representatives may only distribute and offer to their clients products and funds approved by the Dealer. Any new product that a representative wants to offer his clients is subject to preliminary approval in accordance with PEAK's Know Your Product policy.

- Only products and funds that appear on the approved list can be activated on the various platforms used by the Dealer;
- The Operation Department is responsible for creating products and funds on the various platforms; however, the Compliance Department's prior approval is required;

- Only products and funds confirmed by the Compliance Department for new products may be distributed;
- Any deviation from the approved products list must be investigated and will immediately be subject to corrective measures.
- Know Your Product requirements also apply to unsolicited orders. Therefore, PEAK and its representatives are required to know the products even if they have not been recommended.

#### 4.2.1 Responsibility of the representatives

Representatives must do their own prior check of the products they wish to distribute before offering them to clients. They must understand such products fully so that they can properly explain to their clients their main characteristics and the risks they involve. The representative's review shall include, but are not limited to, the product's:

- structure;
- characteristics;
- risks;
- initial and ongoing costs and the impacts of those costs and,
- intended clientele.

It is recognized, however, that the level of guidance to be provided to each client, and the nature of the discussions with each client will vary depending on the sophistication of the client. The advisor must adapt their approach in the meeting to the client's demonstrated knowledge to help the client fully understand the investment product recommended, the risks associated thereto and ensure that he can make an informed investment decision.

If a desired product is not on the approved product list, the representative must submit a request to the Compliance Department to obtain approval to recommend such a product. The fact that the product is approved by the Compliance Department does not release the representative from his obligation to determine whether the product is suitable for the client, considering the client's investment knowledge, risk tolerance, investment objectives and investment horizon.

#### 4.2.2 PEAK's responsibilities

PEAK does not make securities available to clients unless it has taken reasonable steps to:

- assess the relevant aspects of the securities;
- approve the securities to be made available to clients; and
- monitor the securities for significant changes.

Like the representative, the Dealer is responsible for doing a prior reasonable check of products before they are approved for sale. The representative shall submit his request to the Compliance Department so that it can:

- review all documents related to the product;
- review all marketing documents related to the product;



- assess the regulatory framework;
- assess the risks associated with the product;
- assess the costs related to the product. This includes analyzing if the fund company will automatically switch the client into a lower MER series once a specific threshold is reached. If there is no automatic switch, then the fund will not be approved on the platform.
- assess the commissions and other types of compensation to be paid to the Dealer and to the representative in respect of the sale of the product and review the possible conflicts that could arise from the compensation structure;
- review competing products that could be less costly or less risky;
- assess the product's investment objectives, any projected returns and the likelihood that the investment will achieve such objectives and returns;
- review the issuer's financial position and history;
- assess senior management's competency and performance; and
- assess any depositary, Representative or guarantor related to the product.

PEAK must also ensure that the representative who makes the request properly understands the product that he wants to recommend.

Final approval is given by a senior manager of the Compliance Department. All documents used for the analysis, compliance memos and conclusions must be kept in PEAK's files.

### 4.3 Suitability

PEAK must have current KYC information on a client whenever a suitability determination is required, i.e. before:

- making a recommendation to or accepting an instruction from a client to buy or sell a security; or
- purchasing or selling a security for a client's managed account.

Representatives must observe the following steps for collecting and documenting KYC information:

- engage in meaningful KYC discussions with clients;
- collect and document sufficient minimum KYC information;
- maintain a record of the identification documents (for instance, passport or driver's licence number and place of issue);
- use PEAK's KYC forms;
- consider a client's willingness to accept risk and ability to accept risk when assessing a client's risk tolerance;
- review the completed KYC form with the client for accuracy, and sign and date the document.

PEAK's clients are asked to provide any updates to their information **every three years.** In the event the changes are provided by telephone, they are documented in writing and put on file. The forms shall be completed correctly and signed by both the client and the advisor to confirm the information it contains. A copy of the new account form shall be



provided to the client upon the opening of the account as well as after any amendment or update. The new account form and updates thereto shall be kept in the client's file for a period of at least seven years from the closing of the account.

To meet the suitability obligations, Representatives must take reasonable steps to ensure that they have sufficient information about:

- the client's KYC information;
- their assessment and understanding of the security consistent with the Know Your Product requirements;
- the impact of the action on the account, including the concentration of securities within the account and the liquidity of those securities;
- the actual and potential impact of costs on the client's return on investment;
- a reasonable range of alternatives available through the Firm at the time the determination is made; and
- ensuring the action puts the client's interest first.

Subject to applicable exemptions and exceptions, Representatives must make a suitability determination:

- before any order is accepted from the client;
- before a recommendation is made to the client to purchase, sell, exchange or hold a security;
- whenever one or more of the following non-trading related triggering events occurs:
  - securities are received into or delivered out of the client's account by way of deposit, withdrawal or transfer,
  - there is a change in the Registered Representative, or
  - there is a material change to the client's life circumstances or objectives that has resulted in revisions to the client's "Know Your Client" information as maintained by the Dealer Member.

Whenever a suitability determination has been made, PEAK must use due diligence to ensure that:

- the client receives appropriate advice in response to each suitability review that is conducted, and
- where an order received from the client is determined to not be suitable, PEAK:
  - must advise the client against proceeding with the order, and
  - must not proceed with the order unless the client instructs PEAK to proceed notwithstanding PEAK's determination that the order is not suitable.

For more information on unsolicited trades, please refer to section 4.11.4 "Unsolicited transactions".

If a client is opening more than one account, PEAK should indicate whether the client's investment objectives and risk tolerance apply to a particular account or to the client's whole portfolio of accounts.

#### 4.3.1 Continued Verification of Suitability

PEAK must review a client's account and the securities in it to determine whether the criteria above are met, and take reasonable steps, within a reasonable time, after any of the following events:

1. a new Representative is designated as responsible for the client's account;
2. the Representative becomes aware of a change in a security in the client's account that could result in the security or account not satisfying the above criteria;
3. the Representative becomes aware of a change in the client's information collected that could result in a security or the client's account not satisfying the above criteria;
4. the periodic (three years or annual) review of the client's information.

Contact will be made by the Representative with the client at least **every three years** to verify that all financial and suitability information is still applicable and accurate, and notes of those conversations will be kept in the client file. All notes added to the file should be dated. When possible, the advisor should also request that the client acknowledge, in writing or by electronic mail, the discussion(s) and retain this acknowledgement in the client's file. The advisor must also conduct a periodic review and take appropriate action within a reasonable time if it becomes aware of a change in a security in the account or becomes aware of a change in the client's account opening information, that could result in the security or account not satisfying the suitability determination criteria.

The updated information gathered by the advisor will be assessed to ensure that the purchase or sale of securities in accordance with the client's profile and needs is suitable to that client.

#### 4.4 Types of account

All accounts are opened on behalf of clients at the fund companies or with PEAK for self-directed/nominee accounts.

##### 4.4.1 Registered account – RRSP

Account in the name of a single holder whose sums are held in a registered retirement savings plan. The account can be opened with a fund company or with an authorized trustee.

##### *Documentation required:*

- KYC form
- Account Opening application from a fund company or a trustee, where appropriate;
- Financial Instructions form
- If the deposit is in the form of a transfer from another institution, the appropriate registered transfer form (T2033) must be completed by the representative and signed by the client

#### 4.4.2 Registered account – joint RRSP

Account in the name of a single holder whose contributor is the spouse. The account can be opened with a fund company or with an authorized trustee.

*Documentation required:*

- KYC form (with spousal information)
- Account opening application form from a fund company or a trustee, where appropriate
- Financial Instructions form
- If the deposit is in the form of a transfer from another institution, the appropriate registered transfer form (T2033) must be completed by the representative and signed by the client

#### 4.4.3 Registered account – LIF/LIRA

Account in the name of a single holder whose sums are registered in a locked-in retirement account. The account can be opened with a fund company or with an authorized trustee.

*Documentation required:*

- KYC form
- Account opening application form from a fund company or a trustee, where appropriate
- Financial Instructions form
- If the delivering institution requests it, an options form and a locked-in agreement must be signed by the client (if applicable depending on the jurisdiction) and provided by the representative
- A T2151 form signed by the client must be provided by the representative

#### 4.4.4 Registered account – RRIF/RIF

Account in the name of a single holder whose sums are registered in a retirement income fund or a life income fund. The account can be opened with a fund company or with an authorized trustee.

*Documentation required:*

- KYC form
- Account opening application form from a fund company or a trustee, where appropriate
- Financial Instructions form
- If the deposit is in the form of a transfer from another institution, the appropriate registered transfer form (T2033) must be completed by the representative and signed by the client

- If the delivering institution requests it, an options form and a locked-in agreement must be signed by the client (if applicable depending on the jurisdiction) and provided by the representative
- A T2151 form signed by client, if the funds are still part of an existing pension plan
- A void cheque for direct payment to clients. If the client prefers to receive a cheque, then the void cheque is not required

#### 4.4.5 Registered account – RESP

Individual account or account with a joint holder which allows the granting of a Canada education savings grant (CESG) offered by the federal government and the Québec Education Savings Incentive (QESI) is a provincial grant both with a maximum contribution per year and per beneficiary, to enable the beneficiary to pursue postsecondary studies.

##### *Documentation required:*

- KYC form
- Account opening application form from a fund company or a trustee, where appropriate
- Financial Instructions form
- If the request for the CESG or for the QESI is not part of the account opening form by the fund company, an adequate CESG or QESI request form signed by the client must be provided
- The beneficiary's social insurance number (SIN) must be provided for registered education savings plan (RESP) accounts; otherwise they may no longer be registered by the fund company
- If the deposit is in the form of a transfer from another institution, the form SDE0088 (federal) must be filled out and signed by the client

#### 4.4.6 Non-registered account – individual

Account that is in the name of a single holder and composed of non-registered securities.

##### *Documentation required:*

- KYC form
- Account opening application form from a fund company or a trustee, where appropriate
- Financial Instructions form

#### 4.4.7 Non-registered account – joint individual

Account in the name of two account holders.

##### *Documentation required:*

- KYC form (with co-holder's information)
- Account opening application form from a fund company or a trustee, where appropriate
- Financial instructions form

#### 4.4.8 TFSA

Account that is in the name of a single holder and consists of registered securities. The tax-free savings account (TFSA) has been offered since January 2009 and allows any individual 18 years of age or older to invest a certain amount up to a limit a year and is tax exempt. Individuals can go on the Government of Canada website to look at the annual TFSA dollar limit of the current year.

Unlike the RRSP, contributions to a TFSA are not tax deductible but any amount withdrawn from a TFSA, including any gains, is tax free.

*Documentation required:*

- KYC form
- Account opening application form from a fund company or a trustee, where appropriate
- Financial instructions form

#### 4.4.9 Non-registered account – legal persons, companies and individual enterprises

Account that is opened in the name of a legal person (federal or provincial corporation), a general partnership company (GPC) or a limited partnership (LP) and consists of non-registered securities.

*Documentation required:*

- KYC form
- Account opening application form from a fund company or a trustee, where appropriate
- Financial Instructions form
- Copy of the certificate of incorporation or corporate agreement
- Resolution of the entity authorizing a person to trade on behalf of the account
- Authorized persons form (one form per representative);
- Identification of beneficial owners; if the name of one or more real owners is a legal person, the same procedure applies, namely, to provide the name, address and occupation of the real owners who hold more than 10% of the corporation. This information must be recorded in the file no more than 30 days after the opening of the company account
- For sole proprietorship companies, provide the sole proprietor's SIN.

#### 4.4.10 Non-registered account – “in trust for” account

Account for the benefit of a third-party minor. The account can be opened by one or two joint owners. The fund company opens an “in trust for” account on behalf of the beneficiary. It must always state the beneficiary's name, SIN and date of birth. At the age of majority, the account will be transferred to the name of the beneficiary. This type of account is not to be confused with a formal trust.

*Documentation required:*

- KYC form
- Account opening application form from a fund company or a trustee, where appropriate
- Financial Instructions form
- State the beneficiary's name, SIN and date of birth

#### 4.4.11 Non-registered account – trust

A trust is a deed whereby a person (the grantor) transfers property to an inheritance (the trust) administered by another person (the trustee) for the account of a beneficiary.

A trust can be created by contract, by will, or by a judgment where the law so permits. This account is not to be confused with an “in trust for” account. This type of account is commonly called a formal trust.

##### *Documentation required:*

- KYC form
- Account opening application form from a fund company or a trustee, where appropriate
- Financial Instructions form
- Trust agreement or will
- Authorized persons form to identify the designated trustee in the trust declaration
- Identification of beneficial owners
- Account number (federal) and identification number (provincial) for the trust. These numbers can be found on the notice of assessment of the trust issued by the federal and provincial governments

#### 4.4.12 Estate account

##### *Documentation required:*

- KYC form
- Account opening application form from a fund company or a trustee, where appropriate
- Financial instructions form
- Last will and testament (notarized, holograph and homologation, declaration of transmission or marriage contract)
- Authorized persons form to identify the liquidator appointed in the testament/will;
- Death certificate
- Search certificate issued by the Chambre des notaires du Québec and by the Barreau du Québec
- Declaration of transmission

#### 4.4.13 Prospera account

A Prospera account allows the representative to charge a percentage based on client's assets instead of a commission on each transaction.

Prospera accounts are usually available for clients with assets of \$100,000 or more. However, a Prospera account can be opened for less than \$100,000 if the amount of assets held in the same household totals more than \$100,000.

#### *Eligible assets*

Only non-commissioned funds (Series F funds or equivalent) are eligible within a Prospera account.

#### *Flat rate*

The rate of commission is set between the representative and the client. This rate is between 0.5% and 2.5%. Any rate higher than 2.5% must be justified and approved by the Compliance department. The rate chosen is entered and validated by the account opening department.

#### *Account opening department*

When the Prospera Agreement is received by the account opening department, they make sure that these elements are on the Agreement:

- The rate
- The signature of the client
- The signature of the representative
- The date the Agreement was signed on

The Agreement is received by the department when there's

- A new account opening
- A rate change (up or down)
- A conversion from an existing account to a Prospera account

#### *Change of existing account to a Prospera account*

The change from an existing account to a Prospera account must be done in a way to ensure that the client is transparently informed of the consequences of a change in the way he is charged, and that he consents to this change. Thus, when opening the Prospera account, the representative must demonstrate that a cost-benefit analysis has been conducted, and the client will not pay more in fees as a result of a change to Prospera. If the client pays more, the representative will have to demonstrate the reasonability of this change and that the client has consented to it.

#### Controls on Prospera accounts

- (1) Only the account opening department can code an account as Prospera (fee base account) and enter the rate for the account.
- (2) A monthly control is in place to make sure that the funds are coded as fee based in the system.

- (3) The system will automatically charge the fee according to the rate coded in the account and will only charge on positions that are eligible to a Prospera account.
- (4) Every month a comparison between the total of Prospera fees with the previous months to ensure that there's no significant discrepancy that will require more investigation.
- (5) Throughout the account statement sampling procedure, we ensure to include accounts that have Prospera fees. When doing the sampling we ensure that the fees that have been charged to the client correspond to the ones that should have been charged. We also ensure that the fees are reported adequately in the Charge and Compensation Report at year end.

#### 4.5 Account supervision (tier 1 and tier 2)

Account supervision at Peak is performed under a two-tier structure. The branch manager or the Compliance Officer at PEAK's Head Office carries out daily supervision of the activities of his representatives. This supervision must be carried out rigorously and assiduously.

There is a rigorous review of trades involving products offered by the dealer (mutual funds, principal protected notes, segregated funds, exchange-traded funds, PTF, etc.) to ensure that representatives' investment recommendations are suited to their clients' investor profiles. To make analysis of investment suitability easier and more efficient, PEAK Compliance Officers and Branch Managers use the tools and information available in the compliance modules of the platforms.

##### 4.5.1 Tier 1 supervision

###### 4.5.1.1 Approval of account opening (new accounts)

All Know Your Client forms must be approved by the branch manager or the Compliance Officer responsible for supervision directly in the systems no later than the business day after the first trade.

Paper forms used for new accounts and updates are also signed and dated. For all platforms, a log is used to monitor resolution of deficiencies.

Approval for account opening may be given only if:

- all the relevant fields of the form have been duly completed;
- the necessary supporting documents accompany the account application;
- the client has been identified according to PCMLTFA standards;
- the client is not on the list of undesirables;
- the information in the Winfund, R-Broker, or Univeris platform is complete and consistent with the information on the signed forms, which are also complete;
- there is consistency between the client's information (age, personal, financial and employment situation) and investor-profile information; and
- all the necessary signatures and initials of the client and the representative appear on the form.



#### 4.5.1.2 Approval of Know Your Client form updates

Updates of Know Your Client forms must be approved by the branch manager or the Compliance Officer directly in the systems no later than the business day following the update.

Paper forms used for new accounts and updates are also signed and dated. For all platforms, a log is used to monitor resolution of deficiencies.

Updates effected for clients of a branch manager must be approved directly by the Compliance Officer at Head Office.

Approval of the update may be given only if:

- all the relevant fields of the form have been duly completed
- the information in the Winfund, R-Broker, or Univeris platform is complete and consistent with the information on the signed forms, which are also complete
- there is consistency between the client information (age, personal, financial and employment situation) and investor-profile information, and
- all the necessary signatures and initials of the client and the representative appear on the form.

#### 4.5.1.3 Record keeping

All forms and documents concerning account opening approvals and Know Your Client form updates are digitized by social insurance number and kept at Head Office. The representative also keeps all the forms and information concerning a client in a client file at his place of business. Please refer to chapter 11 for more details on record keeping obligations.

#### 4.5.1.4 Approval of trades

The Branch Manager or the Compliance Officer (tier 1 reviewer) must examine trades involving products offered by PEAK (mutual funds, principal protected notes, segregated funds, exchange-traded funds, etc.) that were carried out the preceding day, using trade reports and all other useful means, to check for unusual trades.

The daily review must be completed on the business day following the trade. The verification is done with the previous day's trade report by means of the compliance modules for representatives in the Univeris and Winfund platforms.

- At a minimum, the review must cover all:
  - initial trades;
  - trades of more than \$2,500 in moderate-high or high-risk investments
  - trades of more than \$5,000 in moderate-risk or medium-risk investments;
  - trades of more than \$10,000 in all other investments;
  - redemptions of more than \$10,000;
  - leveraged trades in open accounts; and
  - trades recommended by approved persons who are subject to strict supervision.
- Relying on experience and knowledge of industry standards, the tier 1 reviewer must follow up on any unusual trades identified during supervision and carry out an in-depth review, as necessary.

- The review of trade and commission reports is designed to ensure investment recommendations are consistent with the KYC form and the client's objectives.
- The tier 1 reviewer must stay abreast of other compliance matters relating to clients, including complaints.
- In their duty of supervision, tier 1 reviewer must review the following:
  - trade amount
  - client's age (70 or over)
  - investment suitability
  - commission discounts and excessive commissions
  - transfers of matured DSC-free units to new funds with exit fees
  - trades involving joint codes of approved persons
  - trades not submitted to the branch but sent directly to the mutual fund company (off-book trades)
  - trades involving late trading and market timing
  - abnormally high levels of activity in a client's account
  - excessive switches between funds or between funds with entry and exit fees
  - mutual fund redemptions followed by purchases of segregated funds and segregated fund redemptions followed by purchases of mutual funds with exit fees
  - trades giving rise to concentration, such as more than 25% of an account invested in high-risk sector funds
  - use of excessively risky investment strategies
  - excessive or unsuitable leverage
  - significant deterioration of the quality of the securities in the portfolio.

The tier 1 reviewer must document the results of any investigation of an unusual trade by making notes directly on the trade report and/or by using other means such as an Excel spreadsheet to monitor pending investigations until they are resolved.

Head Office Compliance Officers use Zendesk to send interventions and document their follow-up to ensure that they have been resolved adequately. The Zendesk ticket number must be documented on the trade report for reference. This applies to Winfund, R-Broker and Univeris. All relevant details, including communications with the advisor, are automatically logged within the Zendesk ticket that is unique to the specific intervention. Automatic follow-ups are sent to the advisor if no response has been provided within 2 business days, and a final notice is sent if interventions remain unanswered after 25 business days. If no adequate response has been provided within this 25-day period, the Compliance Officer receives a notification to restrict the account. At this point, the Compliance Officer must communicate with the advisor to find an adequate solution to the intervention or escalation procedures will be engaged. The status of the intervention cannot be changed to "Solved" until an adequate resolution has been provided.

Constant monitoring must be carried out by the Branch Manager or Compliance Officer, to ensure that the issues raised during supervision are rapidly resolved. A representative who contravenes regulatory obligations and PEAK's policies may be subject to strict

supervision of activities involving PEAK. Refer to section 4.7 for details on Escalation Procedures and Disciplinary Measures.

#### 4.5.2 Tier 2 Supervision

The Tier 2 Supervision procedure is an independent and separate revision of daily trades that meet specific criteria. While the depth of the revision is not the same as the Tier 1 daily supervision, the Tier 1 elements must be taken into consideration while considering the Tier 2 factors. Tier 2 supervision is performed only by head office.

As per MFDA Policy 2, in tandem with the Tier 1 factors, the Tier 2 supervisor must review daily:

- Redemptions over \$50,000
- Trades over \$10,000 in moderate or medium risk mutual funds
- Trades over \$50,000 in all other investments (excluding Money Market Funds)
- Trades of \$5,000 in exempt securities, moderate-high, or high-risk investments, or leveraging for accounts other than RRSPs and RESPs.

During the independent review of a trade by the Tier 2 supervisor there may be deficiencies or information lacking. To raise these issues, the Tier 2 supervisor will follow the process below:

1. The Tier 2 supervisor will check to see if the Tier 1 supervisor has identified the issue and sent an intervention to the advisor.
2. If the deficiency is not already part of the Tier 1 supervisor's intervention, the Tier 2 supervisor will send a ticket via Zendesk requesting that the Tier 1 supervisor send an intervention to request this information. The Tier 1 supervisor will take the Zendesk ticket, modify it with the intervention, and send it to the advisor. The Tier 2 supervisor is added as a "Follower" on the intervention and will receive all updates associated to this ticket.
3. If the deficiency has already been queried by the Compliance Officer, the Tier 2 supervisor will add themselves as a "Follower" on the intervention that was already sent via Zendesk.
4. The Tier 2 supervisor will log their Tier 2 concern in the platform, along with the Zendesk ticket number for reference

The Tier 2 supervisor will follow-up via Zendesk to ensure that the responses received from the intervention are timely and satisfactory. The Tier 2 supervisor will ask for a status update on each inquiry and dig deeper into any outstanding interventions that have not been solved.

##### 4.5.2.1 Daily review of unusual trades

To ensure effective supervision, Head Office focuses on unusual trades or review procedures not carried out by the branch.

The additional procedures implemented by Head Office are intended to detect the following types of trade:

- trades that are not suitable for a client;
- an excessive number of trades or substitutions between funds involving various types of charges (churning);
- deterioration of the quality of the client's portfolio;
- trades in unauthorized jurisdictions;
- off-book trades (Winfund and Univeris).

Head Office must pay special attention to activities by representatives who have previously been subject to disciplinary measures or whose conduct has been debatable.

Daily reviews must take place within one business day unless they are delayed because of unusual circumstances.

#### 4.5.2.2 Producing Branch Manager Supervision

Head Office reviews the trades of the producing Branch Manager in his function as an advisor. This is comprised of the same Tier 1 and Tier 2 applicable to all representatives.

## 4.6 Trend analysis

### 4.6.1 Reports reviewed

In addition to daily supervision of trades, the Compliance Department analyzes trends that could give cause for concern. To that end, reports are produced and then analyzed within a maximum of 30 days after they become available in the systems. The review of the reports described below may lead to more in-depth investigations, corrective measures and even disciplinary measures, if the context so justifies.

### 4.6.2 Monthly report on accounts that generate more than \$1,500 of commissions within the month

The report on accounts that generate more than \$1,500 of commissions within the month is reviewed to detect practices designed mainly to generate commissions without regard for the client's best interests, such as:

- redemptions and subsequent purchases of the same type of fund;
- redemptions and subsequent purchases of the same fund;
- movement within the same fund family carried out as redemptions and subsequent purchases rather than switches; and
- redemptions of DSC funds, whether mature or not, with the proceeds reinvested in DSC funds.

### 4.6.3 Quarterly report on assets under administration compared with the prior period and market performance

Quarterly reports on assets under administration and the comparison of assets currently under administration with those of the same period of the prior year are designed to show significant increases and decreases.

The following are excluded from the analysis:

- Codes of representatives whose assets under administration are less than \$250,000 during the current year

The following are included in the analysis:

- Codes of representatives with more than \$250,000 of assets under administration at the end of the prior year and less than \$250,000 at the end of the current year
- Assets under administration by a representative whose AUA is 10% higher or lower than that of the quarterly PEAK calculated Index\*
- If the representative's book of business decreases by 10% or more during the specific period.

\* The quarterly PEAK Index is calculated by subtracting the fixed income from the AUM, dividing the equity by the Total AUM and having it multiplied by the return of the TSX. This allows for a more precise index comparison.

A representative's change in AUA that is 10% higher or lower than that of the Quarterly PEAK calculated Index could indicate:

- recommendations to purchase a specific product that would place the representative in a conflict of interest (such as an insurance product that would give him the chance to win a contest)
- movements of funds between mutual funds and segregated funds with possible multiplication of DSC fund purchases and redemptions that may be difficult to detect if the DSC redemption proceeds are placed temporarily in segregated funds
- a misunderstanding of the risk of a product sold on a large scale
- inappropriate solicitation
- investments made without client consent
- a loss of clients due to dissatisfaction with service (for example, representative never available, poor-quality service, outside activity that takes up a large portion of the representative's time), or
- a loss of clients caused by low returns due to poor product selection.

#### 4.6.4 Quarterly commission report compared with the prior period and the average for all representatives

The quarterly commission report for the latest 12-month period is compared with that for the same period of the preceding year.

The analysis excludes representatives who generate less than \$10,000 of commissions a year.

An initial selection and analysis is done of representatives who generate commissions that vary by 10% more or less than the Quarterly PEAK calculated Index. The purpose of these verifications is mainly to detect:

- the sale of products with a fee schedule to generate commissions, possibly without regard for the best interests of clients;

- use of a financial strategy based on excessive leverage that may not be suitable for clients;
- purchases and redemptions and/or switches of mutual funds with the sole objective of generating commissions (churning);
- movements of funds between mutual funds and segregated funds with possible multiplication of DSC fund purchases and redemptions that may be difficult to detect if the DSC redemption proceeds are placed temporarily in segregated funds;
- a loss of clients due to dissatisfaction with service (such as representative never available, poor-quality service, outside activity that takes up a large portion of the representative's time); and
- a loss of clients caused by poor returns due to poor product selection.

#### 4.6.5 Other reports

##### 4.6.5.1 Quarterly concentration report

The Compliance Department does a quarterly review of accounts whose concentration exceeds the determined limits (more than 25% of the account invested in high-risk sector funds) and follows up with the representative, who must be able to demonstrate that the concentration limits established by PEAK are respected.

If such justification is based on assets available for investment internally and externally, the representative must also demonstrate that he has taken reasonable measures to obtain up-to-date, accurate information from the client.

If the representative is not able to demonstrate suitability, measures must be taken to rectify the situation.

#### 4.6.6 Investigation on deficiencies detected on trend reports and other reports

The requests made of representatives and their answers concerning the deficiencies raised are recorded in the report. The analyst must include sufficiently detailed comments concerning his approach and the facts that led to the conclusion to ensure that a reader who is not aware of the file can understand the decision.

Copies of the emails are kept in the log, which includes the following information:

- the client's account number
- the client's name
- the representative's name
- the branch manager's name
- the client's province of residence
- the deficiency raised
- a summary of the questions put to the representative concerning the deficiency
- the representative's answer
- any comments
- any follow-up date, and
- the status of the request (resolved or pending)

#### 4.6.6.1 Proof of trend review

A proof of trend review is commented, signed and dated after each review, and the electronic versions of the reviews and the supporting documents are kept on PEAK's shared network.

### 4.7 Escalation Process & Disciplinary Measures

#### 4.7.1 Escalation Process

If the representative does not provide a satisfactory answer within a reasonable period, the matter will be escalated to the supervisor of the trade supervision team. A meeting will be held with the advisor outlining the issues identified and an action plan must be established to adequately resolve the deficiencies. If the advisor does not collaborate, the matter will then be escalated further to the management team of the Compliance Department.

#### 4.7.2 Disciplinary Measures

If significant deficiencies (including a lack of collaboration) are determined or prohibited practices are observed, disciplinary measures may be taken in proportion to the nature of the actions.

### 4.8 Joint codes

#### 4.8.1 Monitoring the joint codes

Under current regulations, the representative code assigned to an account must be the code of the representative conducting the business relationship with the client. If there is more than one advisor servicing the clients, it must be done under a joint code.

It is important for the compliance staff to ensure that the signature of the representative appearing on forms matches the appropriate representative code. If a problem affecting the account of a client managed by representatives with a joint code occurs, such that it is impossible to determine who is responsible for the account, all authorized persons using the joint code may be held responsible.

Each time a representative is called upon to manage an account using a joint code, he must know the essential facts relating to the client to ensure that the recommendations made are relevant and consistent with the client's investment objectives.

If the representative has not participated in the collection of the KYC information, he must ask the client to confirm that the information on record is accurate before making recommendations.

The signature of representatives associated with joint code is mandatory at any time during the opening of a new account. For the KYC form update, however, the signature of only one of the representatives concerned is required.

If a Representative decides to add another representative on the code he must:

- Advise the clients that a new representative has joined



- When updating a KYC, both representatives must sign the KYC update  
When the new representative is called to act on the account, a KYC update must be done and both advisors must sign.

#### 4.9 Account transfer to another Dealer

No account transfer should be processed by the Dealer without a written authorization of the client account holder. Therefore proper documentation such as KYC and account opening form should be completed for each client prior to any transaction and/or recommendation.

##### 4.9.1 Internal transfer of client base (change of representative within the Dealer)

A suitability assessment must be performed by the representative when there is a transfer of assets into a PEAK account or when the client account is re-assigned to another representative at PEAK. In that case, PEAK will allow a delay between 6 and 12 months to perform a suitability assessment depending on the account size.

If PEAK or the representative becomes aware of a material change in the client's KYC information, the representative must perform a suitability assessment no later than one business day after the date on which the client informed PEAK or its representative of that change.

#### 4.10 Orphaned and unclaimed accounts

##### 4.10.1 Orphaned accounts

Following a representative's departure, a letter is sent to the client informing them that their representative has left PEAK and that a temporary representative has been assigned to their account. All orphaned accounts are reassigned to a new representative within 30 days. When a new representative is assigned to the client, the name of the new representative will appear on the client's statement. The clients are informed that the temporary representative will become permanent after 90 days.

A report is generated on a quarterly basis to ensure that all clients have been properly reassigned. The report is signed by a senior manager of the Integration department.

##### 4.10.2 Unclaimed accounts and clients without an address

An account that is not claimed is the account of a client with whom the Dealer cannot communicate because his address and phone number are no longer valid.

The Dealer expects a representative to make reasonable efforts to obtain updated information if he discovers that an address or a phone number is not valid, and to keep proof of his efforts on file. If the representative does not successfully obtain new contact information for the client, he must communicate this fact in writing or by email to the Dealer's Compliance Department, which will take the appropriate measures.



## 4.11 Transaction processing

### 4.11.1 Transactions in non-registered territories

If a representative is not registered in the jurisdiction of residence of the client, the representative may decide to obtain registration in such province or to transfer the client to another registered representatives of the Dealer in such province. In the absence of a decision from the representative, the Dealer may identify a new duly registered representative and notify the client in order to transfer his accounts to such representative or any other representative the client wishes. The referred client's accounts will be frozen until the transfer to another registered representative is complete.

#### 4.11.1.1 Fund Fact Delivery

The Representative must give the most recent fund facts to the client before accepting any purchase instructions. The client must have time to become familiar with the funds before agreeing to purchase them. In the case of ETF facts documents, they must be delivered before midnight on the second day following receipt by the advisor of client's instructions to purchase the security. In both cases, this is not applicable if the client has already received a copy of the most recent fund facts (or ETF facts) through previous purchases.

PEAK is not required to deliver the fund facts document to a purchaser in connection with a purchase of a security of a mutual fund made pursuant to a pre-authorized purchase plan if all of the following apply:

- the purchase is not the first purchase under the plan;
- PEAK has provided a notice to the purchaser that states:
  - the purchaser will not receive a fund facts document after the date of the notice, unless the purchaser specifically requests it,
  - the purchaser is entitled to receive upon request, at no cost to the purchaser, the most recently filed fund facts document by calling a specified toll-free number, or by sending a request by mail or e-mail to a specified address or e-mail address,
  - how to access the fund facts document electronically,
  - the purchaser will not have a right of withdrawal under securities legislation for subsequent purchases of a security of a mutual fund under the plan, but will continue to have a right of action if there is a misrepresentation in the prospectus or any document incorporated by reference into the prospectus, and
  - the purchaser may terminate the plan at any time;
- at least annually during the term of the plan, PEAK notifies the purchaser in writing of how the purchaser can request the most recently filed fund facts document; and
- PEAK delivers or sends the most recently filed fund facts document to the purchaser if the purchaser requests it.

Representatives should use the PEAK Fund Facts solutions (within the platform and/or Investor POS). This will allow the representative to prove that the Fund Facts has been provided, whether the document was delivered electronically, or printed to be delivered by mail or in person. It will allow the representative to keep a record of the exact time the Fund Facts was provided to a client.

#### 4.11.1.2 Transaction suitability

An analysis of investment suitability is essentially an objective exercise. The representative must be diligent and prudent, and always act in the client's best interests.

The client's risk tolerance, investment objectives and investment horizon, as stated on the Know Your Client Form, provide direct information on investments that are suitable for the client. These three elements must be compared with the assets held in the client's account to ensure that the recommendations and transactions are suitable.

The other information, such as investment knowledge, annual income, net worth and age, are used for a complementary analysis to determine whether the investor's profile matches the client's personal and financial situation. It is not appropriate to change the "Investment knowledge" information so that it corresponds to the securities recommended to and held by the client. In the assessment of investment suitability, only assets offered or held by PEAK shall be taken into consideration.

The guidelines below apply to ETFs, PTFs and mutual funds. A special attention should be paid to the following situations:

- The client's age versus his investment objectives, investment horizon, risk tolerance and investment knowledge
- The client's financial situation versus his risk tolerance
  - For example, a client whose annual income and net worth are low should not invest in high-risk funds given the volatility of this type of investment and the risk that the quality of such holdings may quickly deteriorate
- If a client wants to invest a substantial amount, the representative should check whether a fund with reduced management fees is available, in accordance with the client's investor profile
- Before recommending a switch from mutual funds with commissions to mutual funds with fees (Prospera Series F funds), the representative should ensure that the recommendation is made in the client's best interests and is appropriate for his situation
  - For example, it would be difficult to justify a switch into mutual funds with fees if the client carries out very few transactions each year or, conversely, to mutual funds with commissions if the client has a very active account
- For exchange-traded funds only the one on the list can be traded because they have been approved. If an ETF is not on the list, the representative must submit a request to the compliance department to approve the ETF before it can be traded. The list can be found on PEAK's website
- Before offering a fund to a client: It is necessary to verify whether the client qualifies for a series with lower fees, per example a lower Management Expense Ratio

(MER) Series funds. A lower MER is generally applicable when a client has \$100K in the same fund or \$250K in the same family of funds. It is your responsibility to know the products you are offering and to make sure you propose the most advantageous fund for the client

- Due to the nature of Dollar Cost Averaging Funds ("DCAFs"), supervisory staff will ensure that the suitability assessment is done at the time the fund is purchased, which will be based on the investment objectives of the underlying fund that will automatically be switched into.

#### 4.11.1.3 Automatic Rebalancing Program

Automatic rebalancing programs offer through funds company, are advanced client instructions for recurring transactions. A target allocation, percentage (or dollar amount) will have been previously established and agreed upon with the client. These instructions are carried out on an automatic schedule following a pre-determined frequency.

Rebalancing programs must be regularly reconfirmed (or updated) with the client. These instructions must be reviewed at a minimum when the KYC is updated. If the client wishes to make changes to the instructions, a new rebalancing form must be completed and signed. Should the client wish to keep instructions as they are, notes in the client file confirming that the instructions have been validated must be kept.

#### 4.11.2 Specific rules before a transaction order is accepted

Before agreeing to carry out a transaction order in a client's account, the representative must inform the client of the charges related to the transaction and:

- a) the charges related to the purchase or the sale of the security or a reasonable estimate of such charges if he does not know the real amount when he communicates them;
- b) in the case of the purchase of a security to which deferred sales charges apply, the fact that the client could be obliged to pay such deferred sales charges on the subsequent sale of the security, stating the applicable scale of charges; and
- c) any trailing commissions that the representative will receive in respect of the security.

Moreover, the representative must keep proof of such communication, for example by placing a detailed note in the client's file with the date and time, the content of the conversation, the client's answer, the details of the documents given to the client stating the charges, such as the information document on client relations. It must always be clear and obvious that the client has been informed of the charges related to a transaction. Please refer to chapter 11, section 11.1.5 for details on notes in client's file.

#### 4.11.3 Concentration and high-risk sector funds

High-risk sector funds are mainly:

- natural resources funds
- precious metals funds

- technology funds
- energy funds, and
- venture capital funds (labour-sponsored funds)

A concentration in high-risk sector funds may increase portfolio volatility and create a liquidity risk for the client.

PEAK considers a portfolio to be concentrated if more than 25% of it consists of high-risk sector funds. As applicable, this means that more than 25% of the assets in all the accounts held at PEAK consists of high-risk sector funds, or that more than 10% of the client's liquid assets available for investment, whether held internally or externally, is invested in such funds. When the check is based on assets held internally and externally, documents that are no more than 3 months old must be obtained in support of the calculation and kept in the file.

The representative must take care to recommend investments that comply with the concentration limits established by PEAK.

Any concentration limit exceedance will be subject to a thorough analysis and corrective measures could be requested.

#### 4.11.4 Unsolicited transactions

PEAK's obligation to analyze transaction suitability applies to instructions recommended by a representative (solicited) as well as to instructions that come directly from the client (unsolicited).

After the review of transactions by supervisory personnel, if a transaction proposed by a client (an unsolicited instruction) is deemed to be unsuitable or not to correspond to his investment objectives, the branch manager or the Compliance Department must inform the client before carrying out the transaction. The client must be informed that the transaction is not suitable according to the information provided in the account application form and must be given a caution. If the client's information has changed, PEAK will oblige the representative to update the KYC information in the file. However, if the client's information has not changed and the transaction is deemed unsuitable, but the client insists on carrying out the trade, a Compliance senior management must take the appropriate protection measures and keep adequate records for each order and any other instructions that are given or received for the purchase or redemption of securities, whether they are carried out or not. The order log must include, at a minimum, evidence that:

- the transaction was unsolicited;
- a suitability determination was made for the client;
- the client was advised that the proposed transaction does not meet the suitability evaluation;
- an alternative action, which meet the suitability evaluation of the client, was recommended to the client; and
- PEAK received and recorded confirmation of the client's instruction to proceed with the action after being advised in accordance with #3.

All securities in a client's account are subject to the obligation to make a suitability determination, including the periodic suitability determinations which require the Representative to know the product. This includes securities in a client's account resulting from an unsolicited order. There are no override provisions. The registrant cannot satisfy its obligations by simply obtaining from the client a written acknowledgement of the unsolicited order.

#### 4.11.5 Receipt of an order from a client

LTA forms are required only under client name accounts.

On all types of accounts, no trading may be performed unless the client's prior permission is obtained. Consequently, the representative must retain in his physical records a copy of the instructions by his client for each requested transaction, in the event of an internal control or if a mutual fund company, a trustee or a regulatory authority requests such information.

The client's instructions may be accepted by phone or in person and can be validated by email correspondence after the phone or in-person meeting. The representative must provide to the Dealer, at the same time as the *Financial Instructions* form, a copy of the client's instructions regardless of the way they have been accepted. These instructions are ideally stated directly on the transaction form. The instructions will then be kept in the archives at Dealer's Head Office for purposes of future review.

Evidence of the client's instructions shall include:

- the date
- the time
- the way the instructions were given (phone, in person meeting etc.)
- the details of the transaction (fund code, account number, type of account)
- the purchase option mode (relevant fees, such as a DSC)
- confirmation of an agreement on the acquisition costs to be paid, if applicable, and
- the method of payment in the case of a redemption (direct deposit, customer address, etc.)

Representatives may not accept any instructions by email (transactions or trade orders). Instructions must be provided orally, with a supporting statement or a telephone recording, or in writing with the client's signature. Evidence of an oral instruction must be kept in the client's file. An email, even if it is kept in the client's file, serves only to confirm the transaction after the telephone conversation.

Here are two examples of situations that may occur:

##### Example 1:

A client sends you an email asking you to transfer money from her PEAK account to her bank account. You must first contact her in person or by telephone. Take

notes concerning your conversation and put them in her file with a copy of her email. You may then go ahead with the fund transfer.

#### Example 2:

A client telephones to ask you to carry out a transaction in her PEAK account. Take notes concerning your conversation and put them in her file before you carry out the transaction.

PEAK's approved persons and employees must respect the following procedures for mutual fund purchases, redemptions, and transfers:

- **PEAK must obtain from the representative all required forms, documents and information before the instruction is processed;**
- **In the case of a purchase, PEAK must ensure that the client issues a cheque payable to PEAK's trust account for the full amount;**
- **Forms and documents related to an instruction must bear the date of the meeting with the client and may in no case be predated or postdated.**
- According to the regulation PEAK prohibits approved persons from sending transaction instructions directly to a mutual fund company.

#### 4.11.6 Instruction processing in a timely manner

##### 4.11.6.1 Mutual Funds

The branch or Head Office must receive the instructions and documentation at the latest on the business day following the signature and the date entered on the forms. As soon as the instructions and completed forms are received by a Transaction Agent, all the forms and other documents are stamped with the date of receipt.

The branch or the Transactions Department at Head Office must process the instruction on the system on the day that the instruction is received.

The Dealer sets a deadline for transaction processing by a branch or Head Office's transactions management. Manual instructions received before 1 p.m. are processed in the system before 4:00 p.m. the same day, while those received after this deadline must be processed no later than the following business day. It is the representative's responsibility to ensure that transactions are executed on time and in accordance with the client's instruction. Any errors must be reported to head office within 48 hours to ensure the proper execution of the transaction.

##### 4.11.7 Exchange-traded funds (ETF)

### Order Processing

Unlike Mutual Funds, ETFs fluctuate throughout the day, similar to stocks. Although some ETFs may show lower volatility, the delay between receiving a purchase or sale order and executing the transaction can still affect the price the client will pay per unit.

PEAK allows a delay of maximum up to one hour between the time the client's order is received and time the transaction is executed.

For R-Broker transactions, the date and time at which the order was taken must be recorded on the order form to ensure compliance with the deadline. The representative must indicate the Order Type (Market or Limit), Symbol/Ticker, as well as the Quantity and/or Price (as the case may be). The representative must call PEAK Securities during the meeting with the client, or immediately after.

For Univeris transactions, only transactional licensed advisors may enter ETF trades in the platform.

If a longer period is to be expected due to the availability of funds (for example waiting for a cash buyback to be settled, depositing a cheque from a client etc.) notes must be taken on the order form. In addition, due to the possible fluctuation of the ETF, the transaction should ideally be reconfirmed with the client at the time the funds become available.

### **Cash Dividends in R-Broker**

When a batch of cash dividends is received, an agent will enter information such as Record Date, Payable Date, Payout Ratio etc., into the platform. Once the criteria have been entered, the system will automatically calculate and place in "Pending" the dividends to be posted to client accounts. Once the agent validates the information, the dividend is distributed accordingly. A supervisor will verify the accuracy of amounts, payment dates and that the amount distributed is the amount that was received. The Finance department also does a reconciliation to ensure a "check and balance".

### **Cash Dividends in Univeris**

An Omnibus batch is received whenever dividends need to be posted. Omnibus communicates directly with Univeris and automatically sends dividends to be posted to client accounts. CIBC will confirm the amount and there is also a reconciliation that is done by Finance whenever a batch is received.

#### **4.11.8 Regulations concerning purchases**

The Dealer must implement transaction procedures to ensure that the time limits for the settlement of transactions are respected.

According to the rules in force, the mutual fund company must receive payment no later than 2 business days after the processing of the transaction. The industry refers to regulation T+2, where T corresponds to the date of the transaction. However, purchases of money market funds must be settled on T +1, or the next business day.

Clients' cheques must be issued to the order of the Dealer's trust account in trust for the client. *Example: PEAK Investment services in trust for John Do.* For redemptions, the mutual fund company must issue cheques directly to clients or use an electronic bank transfer sent to their financial institution.



If the settlement of the subscription transaction is not done within the prescribed time limit, the mutual fund company may redeem the securities on the business day following the settlement date, namely the day that follows T+2, hence, T+3.

#### 4.11.9 Client's right of revocation

Some provincial securities laws stipulate that the underwriter has the right to revoke a subscription within 48 hours after receipt of a notice of execution of a subscription of \$50,000 or less. In fact, the law provides for a review period. The underwriter who exercises this right, by a notice in writing or by electronic mail sent to the Dealer, has the right to receive a sum that does not exceed the net asset value of the securities at the time of the revocation, in addition to the fees and charges paid at the time of subscription.

#### 4.11.10 Client's right of resolution

The subscriber also has the right to cancel a transaction retroactively, without penalty, within a period of 48 hours after receipt of the prospectus (Fund Facts) after transaction. Subscribers who exercise this right, by a notice in writing or by electronic mail sent to the Dealer, are entitled to a refund of the full amount of their subscription, in addition to the fees and charges paid at the time of subscription. The purpose of this law is to provide a period of respite during which the client can familiarize himself with the prospectus and go back on his decision to purchase.

In theory, a client who has never received a prospectus or Fund Facts may exercise his right of resolution at any time and will be refunded the full amount of his initial subscription. To avoid significant losses, representatives must comply with the rules issued by the Dealer concerning the delivery of the prospectus or Fund Facts at the time of subscription.

#### 4.11.11 Late trading and market timing

Late trading is an illegal practice that occurs when instructions to purchase or redeem are received by the mutual fund company after closing hours and are processed the same day instead of the next day, as prescribed by the regulations.

Late trading constitutes a major breach of the provisions of [National Instrument 81-102](#), which governs the distribution of mutual funds.

Clients must be clearly informed of the cut-off times to be respected for the transaction to be processed on the day the instruction is sent.

Any instruction received by the branch or Head Office after 4:00 p.m. (Eastern Time) is necessarily processed on the following business day.

Market timing involves performing short-term mutual fund transactions with the objective of taking advantage of differences that may exist between the market value of the securities held by a fund and the value used for the valuation of units. For example, this type of situation may occur when the price of a security in the portfolio does not reflect its most recent market value.



Foreign securities are most vulnerable to this kind of abuse, given the influence of time offsets on price transmission. Thinly traded securities held by a fund are another example that can result in a mutual fund's being more subject to this kind of practice.

Market timing may also involve frequent switch trades between funds of the same family or an investment strategy based on multiple short-term purchases and redemptions.

The monitoring of transactions carried out by the Compliance Department must serve to identify transactions linked to a strategy of market timing, which contravenes the basic principle of mutual fund investment, which is usually based on a longer-term strategy.

#### 4.11.12 Access to forms

The main forms approved by the Dealer are available on the Dealer's portal for representatives using the Univeris platforms and on the Winfund Intranet platform for representatives using Winfund. Representatives can download the appropriate forms and print them directly at their place of business. The information can be entered directly in the forms, which encourages the reading of the instructions by transaction agents and helps minimize the risk of errors.

#### 4.11.13 Reconciliation of positions with mutual fund companies

Once trades have been processed in the system, Head Office must send the required forms and documents to the corresponding fund companies and ensure the transactions are settled within the prescribed time limit of T+2 (or T+1 for money market funds).

Transactions entered in the system must be checked and reconciled each day by Head Office by means of FundSERV files exchanged with the fund companies, and any discrepancy must be investigated and resolved.

Other files received each week for sales commissions and maintenance fees must be processed and reconciled by PEAK's Payroll Department.

Finally, the monthly FundSERV files enable the Transaction Department to reconcile the positions (number of units) in the system with the positions confirmed by each fund company.

The reconciliation of off-book transactions that are not in FundSERV is done from the list of positions that B2B provides on its website, and the list is compared with the positions in PEAK's systems.

The Chief Compliance Officer must ensure that trades comply with the policies and procedures issued by the securities authorities and the self-regulatory organizations, such as the AMF and MFDA.

#### 4.11.14 Off-book transactions (Direct trades)

As per regulations, it is forbidden for the representatives to send trade instructions directly to the fund company as all business must flow through the dealer. PEAK expects all representatives to place trades directly in the platforms (wired trade). If the transaction

cannot be placed as a wired trade, the trade must be placed in the platform as “pending”, and then the manual instructions may be faxed to the fund company.

For transactions that cannot be placed in the platform as wired or pending, paperwork must be sent to the Branch Manager for review and processing. If your Branch Manager is the Head office, transactions must be sent to Transactions Department for processing. Once the instructions are processed, a copy will be forwarded to the Compliance department for review. In no case is a representative allowed to send the transaction directly to the mutual fund company.

Non-transactional representatives must forward all trades to the Branch Manager or Head office for processing.

PEAK will monitor the activities of representatives to detect any inconsistencies related to off-book transactions. All deficiencies noted are reported to the representatives concerned in order to obtain more information. If a representative places a transaction directly with the fund company and it turns out that the transaction is deemed non-compliant by the Compliance Department, the correction costs may be charged to the representative. If the situation continues to repeat itself, disciplinary measure may be taken.

#### 4.11.15 Electronic processing agreement (EPA) for Client Name account

The EPA is a mutual agreement between fund Manufacturers and Distributors (PEAK in this case). It enables PEAK to send instructions through the Fundserv network without requiring the submission of backup documentation for eligible Client Name plans and transaction types. However, this does not exempt the Representative from having the necessary documentation on hand.

For most client name wire orders, Representatives no longer need to provide backup documentation. However, some exceptions apply, and representatives must validate whether documents concerning certain trades are required by the Fund Company. To do so:

- Run the daily trade activity report each day to identify trades requiring documentation.
- If documents are required and you are in possession of a signature guaranteed stamp, send them to the fund company immediately. If you do not have a signature guaranteed stamp, forward the documents to the manual transactions team for the documents to be sent to the fund companies. Do not forget to add your wire order number on your document to avoid any duplication of trades.

Any systematic trading setup or modification such as PACs, SWPs or systematic switches must continue to be sent to the fund companies (while respecting the direct trades rule above). Transactional offices are responsible to handle rejects.

Any one-time PAC authorization should be provided for PEAK to withdraw from the client's bank account so the trade can be placed at PEAK (use the [one-time PAC authorization form](#) or instructions on the Purchase / Redemption Order Form.)

#### 4.11.16 Multiple and abusive transactions

Churning occurs when a representative recommends one or more transactions in a client account to generate commissions or to take advantage of the client in another way, when there is little or no basis for the transactions or when the transactions are of little or no benefit to the client.

This practice contravenes the suitability requirements for transactions, as well as the representative's obligation to act fairly, honestly and in good faith toward his clients and to observe high standards of conduct in the practice of his activities.

A trend showing frequent transactions by a representative may give the impression that the goal of the transactions is to simply generate commissions.

The Compliance Officers in charge of transaction supervision must pay particular attention to the following transactions to identify trading whose sole purpose is to generate additional commissions for the representative, a practice that is strictly prohibited by the Dealer:

- The redemption and subsequent purchases of units of the same fund, generating a commission for the representative;
- The movement of money between funds of the same family as a redemption/purchase rather than a substitution (switch) in order to generate a higher commission than the usual substitution fee;

**The redemption of funds whose proceeds are used to buy units of money market funds or to buy funds with a front-end load, with the sole purpose of temporarily parking such funds to avoid compliance controls;**

**The redemption and purchase of units from different families of funds with deferred sales charges (DSC) without reimbursement of commissions. A note must also be entered in the file to record the valid reasons for the transaction; and**

- The purchase or redemption of money market funds with deferred sales charges, given that such funds are generally used for short-term investments.

#### 4.11.17 Transaction Commissions

Transactions that should be monitored more carefully often involve an acquisition cost or other subscription fees.

For clients, the consequences of this type of transaction may include:

- tax implications
- redemption fees
- acquisition fees related to the purchase of front-load funds, and

Representatives are regularly advised that it is strictly prohibited to recommend transactions that are unjustified for the client and serve the sole purpose of generating additional commissions.

In addition, no rebalancing to, or reinvestment in a new fund subject to a low load will be authorized if the fund was initially recommended by the Representative, even if the client

agrees. This rule is based on the principle that it is prohibited to obtain a sales commission on any transactions for which the Dealer and the representative have already received a commission.

If rebalancing is necessary, the preferred option is to reinvest the funds in the same fund family (i.e. to make a switch) at no charge in order to minimize the impact for the client. If a representative wishes to use his commissions to reimburse the client for the cost of redemption (of any kind) triggered by a redemption of units or shares of mutual funds of a mutual fund company, he must follow the procedures established by the Dealer.

He must complete a commission rebate form from the Dealer and have it signed by the client. This form provides the client with the following information:

- A reasonable estimate of the costs or of the commission paid by the representative and reimbursed directly by the mutual fund company
- A reasonable estimate of the amount of redemption fees (of any kind) which the client will be subjected to in the process of units or shares purchase of a mutual fund company, expressed in dollars, and the period when these fees will be incurred, and
- The tax consequences of the redemption

Commission rebates are allowed only in connection with the client's purchase of units or shares of a mutual fund family other than the one from which the units or shares have been redeemed. It is prohibited to use this practice between funds of the same mutual fund family. In the latter case, the appropriate transaction is a transfer, or switch, for which no commission is usually paid.

These criteria will be analyzed during daily monitoring of transactions. If any inconsistencies are identified, the representative will be questioned and, in the absence of rigorous documentation, will be asked to take corrective measures.

#### 4.11.18 Automatic conversion programs for DSC units

Before authorizing a fund company to include a client's account in a recurring automatic program to convert matured DSC units into 0% front end units, the representative must disclose the appropriate information to, and obtain written authorization from, the client. The requirement is the same for non-automatic conversion.

The representative must disclose to the client:

- **any increase in the trailer fee payable to the representative and to the Dealer;**
- **any tax implications of the conversion; and**
- **the terms and conditions in the fund prospectus concerning the possibility of conversion.**

