

## ASC POLICY 3.1

### REGISTRANTS CODE OF CONDUCT AND ETHICAL PRACTICES

#### 1 OBJECTIVE OF POLICY

- 1.1 This policy is intended to summarize the code of conduct and ethical practices of registrants acceptable to the Alberta Securities Commission (the “Commission”) which are derived for the most part from the code of conduct and ethical practices established by the securities industry and contained in the bylaws of certain self regulatory organizations but varied as appropriate for those registrants other than brokers and investment dealers. The practices recommended in this policy should be construed as guidelines only and nothing herein shall limit a registrant's responsibility to maintain the highest standards of integrity in all aspects of dealings with clients. Brokers and investment dealers and their salesmen may comply with this policy by following the guidelines published from time to time by the Alberta Stock Exchange and the Investment Dealers Association of Canada.
- 1.2 The term “registrant” is defined in section 1(s.1) of the Alberta Securities Act (the “Act”) and where used in this policy shall include any dealer, salesman, underwriter, adviser, and any partner or officer referred to in sections 54(1)(a)(iii) and 54(1)(c)(ii) of the Act unless otherwise specified, such as reference to a securities dealer.
- 1.3 Any individual registered to trade as a partner or officer of a registrant shall comply with the guidelines set out in this policy for a salesman in addition to his other responsibilities and obligations as a partner or officer.

#### 2 CODE OF ETHICS AND CONDUCT FOR REGISTRANTS

- 2.1 The client's interest must be foremost consideration in all business dealings.
- 2.2 All information concerning a client's transactions and his account shall be considered confidential and shall not be disclosed except with the client's permission or by order of the Commission or the courts.
- 2.3 A diligent and business-like effort shall be made to learn the essential financial, personal and investment circumstances of each client.
- 2.4 All recommendations must be based on a careful analysis of both client information obtained and information relating to the particular transaction.

- 2.5 All methods of soliciting and conducting business shall be such as to merit public respect and confidence.
- 2.6 All clients entering unsolicited orders which appear unsuitable based on the client information supplied should be given appropriate cautionary advice.
- 2.7 A thorough knowledge of the Act must be maintained.
- 2.8 All personal business affairs must be conducted in a responsible manner so as to reflect credit on the securities industry.
- 2.9 A continuous effort should be made to maintain a high standard of knowledge in the securities industry through reading and study.

### 3 GENERAL RULES OF CONDUCT FOR REGISTRANTS

- 3.1 The practices recommended in this section are designed to give registrants some guidance in following the Code of Ethics.
- 3.2 Every registrant shall follow the “Know Your Client Rule” which requires the use of due diligence:
  - 3.2.1 to learn the essential facts relative to every client and to every order or account accepted;
  - 3.2.2 to ensure that the acceptance of any order for any account is within the bounds of good business practice; and
  - 3.2.3 to ensure that recommendations made for any account are appropriate for the client and in keeping with his investment objectives.
- 3.3 The first step toward compliance with this policy is made by means of a New Client Application Form (the “Form”) which must be completed when opening each account. To assist the client in entering his investment objectives on the Form and to ensure that securities activity is in keeping with industry rules, the registrant must maintain a continued awareness of the client's personal and financial circumstances.
- 3.4 The Form is contained in the Registered Representatives manual published by the Canadian Securities Institute. The Form constitutes the published requirements of the Commission referred to in section 30(8) of the Regulations and shall form the basis for authorizing new accounts as required by section 30(3) of the Regulations.

3.4.1 Every salesman shall refer to the Registered Representatives manual for background information to assist in the completion of the Form.

3.4.2 *Approval to open an Account:*

Only after ascertaining that the information contained in the Form has been verified where necessary and after obtaining any additional information or document required may approval be granted. Before the first order is executed, approval shall be granted by a partner, officer, director, or branch manager designated by the firm.

3.4.3 *Trading Authorization*

If a client authorizes other persons to give orders for his account, the authorization, naming the persons so authorized, shall be in writing and on a form approved by the dealer's legal counsel. It is also necessary to clearly specify whether such authorization covers the withdrawal of funds or securities or both. All such documents should be verified and retained with the application form.

3.5 Every salesman shall ensure that recommendations for purchases and sales of securities are made responsibly either within his firm's research recommendations or based on other information which can be substantiated by the salesman.

3.6 Every salesman shall make the client aware of material negative factors involved in a transaction as well as positive factors.

3.7 Every registrant shall ensure that:

3.7.1 no assurance is given to a client regarding the future trading price of the security.

3.7.2 no assurance is given to a client that a security will be listed on an exchange unless the Director of the Commission consents in writing to such representations.

3.7.3 no undertaking or guarantee is given to repurchase a security at a stated price except in the case of retractable securities where the issuer is required by the security holder to redeem or repurchase.

- 3.7.4 recommendations do not produce a frequency of trading which could lead to an allegation of “churning” (i.e., trading activity primarily to generate commissions).
- 3.8 The following account conditions or proposed trading activities require immediate attention:
- 3.8.1 An account or group of accounts accumulating an unusually large amount of speculative stock. Supervisory staff should be alerted as this situation may have capital and risk management implications.
- 3.8.2 An order received from a client if there is reason to believe the client has an ulterior motive that might adversely affect the investing public or the firm or contravene regulatory rules. The matter should be discussed with a supervisor before entering the order.
- 3.8.3 An order received from a client which appears to produce no investment benefit, such as an unnecessary mutual fund switch. Confirm with the client that he understands the transaction; it may be advisable to obtain a supervisor's approval before entering the order.

#### 4 SPECIFIC RULES OF CONDUCT

- 4.1 *Prohibition Against Carrying Accounts at Other Firms*
- 4.1.1 A salesman or other employee of a registrant is not permitted to control or to carry an account, either in his or in any other name, with another registrant without first obtaining the express written permission of a partner, director, or officer of his firm. The Commission requires that a copy of this consent be filed with the Registrar. If securities transactions are being handled by a bank or trust company, it is the salesman's or other employee's responsibility to see that these transactions are entered through his firm, unless otherwise approved, and that such orders are designated as the order of an employee.
- 4.2 *Clients' Orders Have Priority - “Preferential Trading Rule”*
- 4.2.1 A fundamental trading principle to protect the public relates to the priority given to clients' orders. If an order (i.e., an order for an account in which a partner, director, officer, shareholder or employee of a registrant holds a direct or indirect interest or an arbitrage order) the client's order is to be given priority of execution over the non-client order.

4.3 *Just and Equitable Principles*

4.3.1 No fictitious sale of contract shall be made and each registrant must conduct business openly, fairly and in accordance with just and equitable principles.

4.4 *Unethical Conduct*

4.4.1 Practices which are considered unethical include but are not limited to the following:

4.4.1.1 Any conduct which has the effect of deceiving the public, or the purchaser or the vendor of any security, as to the nature of any transaction or the price or value of the security.

4.4.1.2 Creating or attempting to create a false or misleading appearance of active public trading in a security (e.g. entering fictitious orders for the same security placed with a variety of securities houses).

4.4.1.3 Entering or attempting to enter into any scheme or arrangement to sell and repurchase a security or to dominate the market in a security.

4.4.1.4 Causing the last sale for the day in a security to be higher than warranted by the prevailing circumstances.

4.4.1.5 Using or attempting to use any manipulating or deceptive scheme or contrivance to influence the market price of a security.

4.4.1.6 Making a fictitious transaction in a security or knowingly giving or accepting an order involving no change of beneficial ownership of a security.

4.4.1.7 Bucketing - i.e., confirming a transaction where no trade had been executed.

4.4.1.8 Improper solicitation of orders by telephone or otherwise.

4.4.1.9 High pressure or other sales techniques of a character considered undesirable.

4.4.1.10 Violation of any Statute applicable to the sale of securities.

- 4.4.1.11 Selling or attempting to sell a prospective dividend on a stock.
- 4.4.1.12 Leading a client to believe he can suffer no loss through opening an account or trading in the account.
- 4.4.1.13 Making a practice, directly or indirectly, of taking the side of the market opposite to the side taken by clients.
- 4.4.1.14 Rebating commissions or making, directly or indirectly, any allowance contrary to exchange bylaws.
- 4.4.1.15 Conduct of such nature as to bring the securities industry into disrepute.

#### 4.5 *Conflict of Duty*

- 4.5.1 Every director of a public company has a fiduciary obligation not to reveal any privileged information to anyone not authorized to receive it. Not until there is full public disclosure of such information, particularly when the information might have a bearing on the market price of the company's securities, is a director released from the necessity of keeping such information to himself.
- 4.5.2 Every director of a public company who is also a director, partner, officer or employee of securities firm should recognize that his first responsibility is to the public company on whose board he serves. Thus, the director must meticulously avoid any disclosure of inside information to other directors, partners, officers or employees of the firm, including members of the firm's research and trading departments or clients.
- 4.5.3 When a salesman of a registrant is not a corporate director but is assisting the registrant which is acting in an underwriting or advisory capacity to a company and the salesman is discussing confidential matters, the ground rules should be substantially the same as those that apply to the director. Should the matter require consultation with other personnel of the registrant, adequate measures should be taken by the salesman to guard the confidential nature of the information to prevent its misuse within or outside of the registrant organization.
- 4.5.4 Any position, office or business activity a salesman proposes to assume or participate in, other than as a salesman of his employer, should be discussed in detail with the sales supervisor to confirm acceptability with his employer and to ascertain what, if any, industry regulations must be considered.

4.6 *Market Letters, Circulars, Sales Literature and Advertising*

4.6.1 All market letters, research reports, sales literature, bulletins and circulars issued for general distribution to clients or to the public, as well as all advertisements, must receive prior approval from a designated partner, director or qualified employee who is authorized to review such material for propriety.

4.7 *Confidential or Numbered Accounts*

4.7.1 Registrants may maintain accounts for customers identified by number, nominee names or other symbols provided the registrant maintains at his principal office in Alberta sufficient information in writing to establish the beneficial owner of the accounts or the party or parties financially responsible for them. This information must be available at all times upon the request of the Registrar or the Director of the Commission.

4.8 *Discretionary and Managed Accounts*

4.8.1 A securities dealer, or any person acting on behalf of a securities dealer, shall not exercise discretionary authority regarding client accounts.

4.8.2 Occasionally a client may ask an adviser to exercise his own judgment and, when advantageous, to place discretionary orders on the client's behalf. The Regulations allow only those advisers registered as portfolio managers to exercise discretionary authority over a client's account. A portfolio manager is not permitted to exercise discretionary power with respect to a client's account unless the client has given written authorization and the account has been accepted or approved by a designated partner or director. In addition, the portfolio manager must obtain the written approval of a partner or director prior to placing each order. Each discretionary order must be identified as discretionary at the time of entry.

5 CASH ACCOUNT RULE

5.1 *Introduction*

5.1.1 The practices contained in this item 5 pertain only to securities dealers and their officers and employees.

5.1.2 Securities dealers shall not accept margin accounts.

- 5.1.3 Subject to any additional restrictions imposed as a condition of registration, securities dealers shall only accept ordinary cash accounts in accordance with the requirements set out in items 5.2 and 5.3.

## 5.2 *Settlement*

- 5.2.1 Settlement of an individual transaction in a cash account of a client shall be made by payment (i.e. receipt of cash or the proceeds of sale of the same or other securities held long in the account), or delivery on the settlement date in accordance with the securities industry practice (i.e. normally the fifth clearing day after the transaction takes place.)
- 5.2.2 No client shall be permitted to make a practice of settling a cash transaction by the sale of the same security unless the equity in his account exceeds the value of the transaction.
- 5.2.3 When any portion of the money balance in a regular cash settlement account is past due more than 20 business days beyond the settlement date, then, until the amount more than 20 business days past due had been settled by the client, the client shall be restricted from entering into any further transactions in any account (Note: a self-administered RRSP account does not have to be included in this restriction since it is deemed to be the account of the trustee of the plan) other than for the purpose of closing out (liquidation) transactions or securities in such accounts.

## 5.3 *Capital Charges for Overdue Cash Accounts*

- 5.3.1 When no portion of the money balance in a cash settlement account is overdue more than 10 business days beyond the settlement date, the security dealer shall deduct from liquid capital when computing net free capital, the shortfall when comparing the net market value of all security positions (including any negotiable securities in segregation) in the client's cash accounts, to the net money balance in the client's cash accounts (i.e. market-to-market).
- 5.3.2 When any portion of the money balance in a cash settlement account is overdue more than 10 business days beyond the settlement date, the security dealer shall deduct from liquid capital when computing net free capital, the margin deficiency, if any, that would exist if all of the client's accounts were margin accounts (i.e. the account balances are to be treated as if they were margin accounts and negotiable securities held in segregation may be used in determining the loan value of the accounts.)

6 PRINCIPAL TRADING

- 6.1 Section 68(1) of the Act requires, inter alia, a registered securities dealer to disclose to the client whether or not the registered dealer is acting as principal or agent in a particular transaction. If the registered dealer is acting as principal, one of the following statements should be printed on the confirmation slip:

“As principals we (bought/sold) the securities and charged a fee shown below as commission.”, or

“As principals we (bought/sold) the securities. The record price on the Exchange was (insert recorded price).”

Effective date: March 15, 1987