

SECTION 16 COMPLIANCE INVESTIGATIONS AND DISCIPLINARY ACTION POLICY

Altimum has established policies to ensure that Approved Persons comply with corporate and regulatory policies.

Non-compliance comes with many costs for both Altimum and the Approved Persons. We all share in expenses of lost time, higher insurance premiums, and investigative and regulatory costs.

Altimum seeks to avoid compliance concerns related to lack of response, non-cooperation with processes or procedures, non-compliance with Altimum policies, repeat deficiencies in sub-branch reviews, administrative shortcomings and more serious compliance violations, together with the accompanying regulatory consequences.

The MFDA is advising Dealers to implement a documented policy of disciplinary action that Altimum will impose when there are violations of corporate and regulatory policies. The policy outlined below will allow the Chief Compliance Officer flexibility to apply the appropriate disciplinary action commensurate with the issue or violation under review.

There are five broad categories in this policy. Not all infractions are outlined in this policy and it will be constantly under review.

The five categories are:

1. Audits, to ensure that requested documentation is provided forthwith
2. Administration, to ensure that correct paperwork is flowing efficiently from the Approved Person to the Chief Compliance Officer
3. Sales Practices and Communications, to ensure that all sales communications are compliant and are submitted for review prior to publication or mailing.
4. Complaint Handling, to determine whether the Approved Person failed to perform his or her duties and to carry out his or her responsibilities
5. Investigations when documentation is prepared and sanctions may be determined

Compliance Investigations

Securities regulators require that Dealers implement policies aimed at ensuring the protection of investors and the maintenance of the integrity of the market. To that end, Altimum is required to appropriately address instances of non-compliance in a manner that deters future misconduct by imposing progressively more severe sanctions on 'repeat offenders'.

Altimum may impose disciplinary actions against an Approved Person when incidents of non-compliance are noted. These incidents include, but are not limited to, non-

compliance with rules, regulations and internal policies and procedures. These incidents may be discovered as a result of an investigation arising from a complaint received by Altimum, through supervision of trading activity, from self-disclosure, and as a result of a branch or regulatory review.

When an issue of non-compliance is detected, Altimum will investigate. Altimum will conduct an internal investigation when it receives information suggesting that Altimum or any current or former Approved Person in the firm may have:

1. Violated any provision of any legislation or law, or;
2. Violated any by-laws, rules, regulations, rulings or policies of any regulatory or self-regulatory organization relating to:
 - a) Theft
 - b) Fraud
 - c) Misappropriation of funds or securities
 - d) Forgery
 - e) Money laundering
 - f) Market manipulation
 - g) Insider trading
 - h) Misrepresentation
 - i) Unauthorized trading
 - j) Participation in stealth advising

Investigations may include a request for documentation, interviews with various interested parties including clients, and the analysis of records and other information. All investigations must be fully documented and complete before a written sanction letter is prepared or disciplinary action is imposed. The investigation must include a review of the affected Approved Person's disciplinary history and consideration of the specific circumstances surrounding the incident of non-compliance. The investigation will be conducted by the Chief Compliance Officer, who shall ensure that records of the investigation shall be sufficiently detailed to demonstrate why and how the investigation was undertaken and ultimately, its result. Such records shall be maintained and made available to a regulator upon request for a minimum of two years from the completion of the investigation.

Disciplinary Action

The Ultimate Designated Person must be involved in any decisions to issue sanction letters to individual Approved Persons. In all cases, the affected Approved Person must be given verbal notice in advance that a sanction letter is forthcoming.

The following types of Disciplinary Actions may be imposed in instances of non-compliance.

1. Cautionary letter

These are generally used to remind Approved Persons of internal policies or industry rules. These letters are typically issued for first time oversights or breaches which do not have the potential of causing reputational harm to Altimum or where the regulator is not likely to impose a sanction themselves.

2. Warning Letter

These may be used in cases where there is a subsequent breach of policies or industry rules for which the Approved Person previously received a Cautionary Letter. A Warning Letter may also be used in cases where the breach has the potential to bring reputational harm to Altimum or where the regulator is likely to impose a sanction on the Approved Person or on Altimum. No fine, penalty or sanction is imposed in a warning letter, but in the event of subsequent breaches a warning letter will be brought into consideration.

3. Disciplinary Letter

These are typically imposed following an investigation which results in the conclusion that the Approved Person has committed a significant breach of industry rules or internal policies. Any action which could initiate legal action against Altimum would probably result in a disciplinary letter at the conclusion of the investigation if the Approved Person were to be found at fault.

4. Disciplinary Sanctions

Depending on the facts and circumstances of a case, Altimum may determine that a fine and or penalty may be warranted.

Altimum will always exercise judgment and discretion and consider appropriate aggravating and mitigating factors in determining appropriate penalties in every case.

Factors that will be considered include:

Deception – Attempts by the Approved Person to conceal his or her misconduct or to lull into inactivity, mislead, deceive or intimidate a client, the Member or regulatory authorities.

Vulnerable clients – If there is evidence that the Approved Person sought out or preyed upon “vulnerable” clients, then this should be seen as an aggravating factor worthy of a greater penalty.

Prior warnings – Altimum will consider whether the Approved Person engaged in the misconduct at issue notwithstanding prior warnings or concerns expressed by the MFDA, another regulator, the Chief Compliance Officer or other individual.

Pre-meditation – Evidence of planning and pre-meditation are aggravating factors.

Altimum will consider the degree of organization and planning associated with the misconduct, including the number, size and character of the transactions.

Relevant disciplinary history may include

- (a) past misconduct similar to that at issue; or
- (b) past misconduct that, while unrelated to the misconduct at issue, demonstrates prior disregard for regulatory requirements, investor protection or commercial integrity. Past misconduct also includes prior MFDA disciplinary proceedings, as well as warning letters and Agreements and Undertakings entered into with the MFDA or Altimum. It may also include disciplinary measures imposed by other regulators and licensing tribunals, including terms and conditions or other restrictions placed on the Approved Person.

Whether the Approved Person recognizes the seriousness of the improper activity.

An admission of wrongdoing may be a mitigating factor

The extent of the cooperation provided by an Approved Person during the course of an investigation may also be a mitigating factor.

Attempts by the Approved Person to improperly frustrate, delay or undermine the investigation are aggravating factors.

The harm suffered by investors as a result of the Approved Person's activities

Actual harm can sometimes be quantified by considering the types of transactions, the number of transactions, the size of the transactions, the number of clients affected by the misconduct, the length of time over which the misconduct took place and the size of the loss suffered by the client(s), other individuals or by Altimum.

The following sanctions may be imposed in conjunction with a Disciplinary Letter:

1. Fine or Disgorgement: A monetary fine imposed on the Approved Person, typically deducted from commission earned by the Approved Person. Proposed fines or disgorgement of commissions or profits greater than \$1000 must be reported to the MFDA. Fines may include the requirement to correct a trade to the client's benefit as a result of a violation of order rules. The cost of such correction would be borne by the applicable Approved Person.
2. Restrictions on the activities of an Approved Person for a period of time or permanently (e.g. a restriction prohibiting the opening of new accounts for a three-month period.)
3. Barring an individual from acting in a supervisory capacity.
4. Transferring a particular client's account or accounts to a supervisor
5. A period of suspension with commission pay.
6. A period of suspension without commission pay.
7. A period of Strict Supervision imposed on the Approved Person

8. A requirement for professional re-qualification by the writing and passing of an industry course or examination.
9. Termination of the Approved Person's contract with Altimum.
10. Termination with cause.

5. Fines

A fine will normally be appropriate where the Approved Person has received a financial or other benefit, whether directly or indirectly, as a result of the misconduct.

Generally, the amount of the fine will reflect, at a minimum, the amount of the financial benefit and the amount of time spent on the investigation.

The amount of client loss or harm may also be a relevant consideration in determining the amount of a fine.

The amount of the fine may be decreased or increased depending on the presence of mitigating or aggravating factors.

A fine may also be appropriate in cases where there is no financial or other benefit to the Approved Person. In such cases, the amount of the fine will be commensurate with the seriousness of the misconduct and the amount of time spent on the investigation.

6. Strict Supervision

Approved Persons will be placed under strict supervision for any of the following reasons:

1. Rep's first 180-day periods as an Approved Person with Altimum Mutuals.
2. Failure to comply with any of Altimum Mutuals' Policies and Procedures relating to securities transactions.
3. Trading activities that indicate possible violation of the MFDA Rules and Regulations and any other applicable securities laws.
4. For any other reason deemed necessary by Altimum Mutuals Inc. or any other regulatory body.

When an associate is placed under strict supervision all trading activities are monitored. The back office system will not allow any trades to be processed without the approval of the Chief Compliance Officer.

7. Suspension of authority or Termination of sponsorship of an Approved Person

The suspension or termination of the authority of an Approved Person to conduct securities related business may be considered where:

- There have been numerous serious transgressions;
- There has been a pattern of misconduct;
- The Approved Person has a disciplinary history;
- The misconduct in question has caused some measure of harm to the integrity of the securities industry as a whole; or
- A fine alone would be insufficient or inappropriate.
- The public itself has been abused;
- The Approved Person is ungovernable or refuses to cooperate with regulatory bodies and or Altimum;
- The misconduct has an element of criminal or quasi-criminal activity;
- The likelihood of recurrence is high;
- There is reason to believe that the Approved Person could not be trusted to act in an honest and fair manner when dealing with the public, clients and other participants in the securities industry.

The length of the suspension and or termination will depend on these and other relevant factors.

Fines and Sanctions Imposed by the MFDA

The following is a list of fines and sanctions which may be imposed by the MFDA upon Approved Persons in the enforcement of their regulations. For a more comprehensive review of disciplinary actions that may be taken by the MFDA please refer to MFDA Member Regulation MR - 0060 found on the MFDA website. It can also be found under the link 'Compliance Notices'. Penalties for Altimum would be much greater than these penalties related to Approved Persons only and can be found in the regulation.

1. BOOKS AND RECORDS

Altimum Mutuals Inc. shall keep such books and records and other documents as are necessary for the proper recording of its business transactions and financial affairs and the transactions that it executes on behalf of others.

The books and records to be kept are set out in MFDA Rule 5.1.

FACTORS THAT MAY BE CONSIDERED

1. The nature of the inaccurate or missing information.
2. The materiality of the inaccurate or missing information.
3. The extent of any client losses.
4. Whether there was an intentional disregard for the requirements or if the failure was due to carelessness or inadvertence.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$5,000.
- Write or rewrite an appropriate industry course (e.g. IFIC Officers', Partners' and Directors' Course or Canadian Investment Funds Course)
- Suspension
- Permanent prohibition in egregious cases

2. COMPLAINT HANDLING

FACTORS THAT MAY BE CONSIDERED

1. The number and nature of complaints.
2. The duration of the period during which complaints were not properly recorded or dealt with.
3. The delay in responding to complaints.
4. The extent of any client losses.
5. Whether there was an intentional disregard for the requirements or if the failure was due to carelessness or inadvertence.
6. Whether the Approved Person misled or deceived the complainant as to the validity of the complaint.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$5,000.
- Write or rewrite an appropriate industry course (e.g. IFIC Officers', Partners' and Directors' Course or Canadian Investment Funds Course).
- Suspension.
- Permanent prohibition in egregious cases.

3. CONFLICT OF INTEREST

MFDA Rule 2.1.4 requires that Altimum Mutuals Inc. and each Approved Person be aware of the possibility of conflicts of interest arising between the interests of Altimum Mutuals Inc. or Approved Person and the interests of the client.

In the event that such a conflict or potential conflict of interest arises, the Approved Person must immediately bring the conflict or potential conflict of interest to the attention of Altimum Mutuals Inc. and Altimum Mutuals Inc. and the Approved Person must ensure that it is addressed by the exercise of responsible business judgment influenced only by the best interests of the client.

Responsible business judgment requires the use of reasonable care and diligence as necessary in the circumstances to address the conflict or potential conflict of interest in the best interests of the client.

The exercise of responsible business judgment will vary depending on the nature of the conflict of interest and the client's circumstances.

See also the sections in these Guidelines for the following specific types of conflict of interest: Personal Financial Dealings, Outside Business Activity, Churning and Referral Arrangements.

FACTORS THAT MAY BE CONSIDERED

1. Whether the activity was an isolated incident or part of a larger pattern of conduct involving multiple clients.
2. Whether the conflict of interest was adequately explained to the client.
3. Level of client sophistication: did the client understand the nature and significance of the conflict of interest?
4. Whether the conflict of interest was brought to the attention of the Member.
5. Whether the Respondent was aware of the prohibited nature of the activity.
6. Whether the Respondent concealed or attempted to conceal the activity from the client and/or the Member.
7. Whether the client was harmed by the activity and if so, to what extent.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$5,000.
- Write or rewrite an appropriate industry course (e.g. IFIC Officers', Partners' and Directors' Course or Canadian Investment Funds Course).
- Suspension.
- Permanent prohibition in egregious cases.

4. PERSONAL FINANCIAL DEALINGS

Personal financial dealings with a client should be avoided as they create a potential for the Approved Person to place his/her own interests above those of the client.

Examples of personal financial dealings with clients include:

- 1) Borrowing from clients;
- 2) Lending to clients;
- 3) Private investment schemes with clients;
- 4) Involvement in outside business activities with clients; and
- 5) Monetary or non-monetary benefits to or from clients. .

FACTORS THAT MAY BE CONSIDERED

1. Whether there were circumstances, which may make the offensive activity less objectionable – pre-existing/family relationship between client and the Respondent.
2. Whether the activity was an isolated incident or part of a larger pattern of conduct involving multiple clients.
3. Whether the conflict of interest was explained to the client.
4. Whether the conflict of interest was disclosed to the Member and its consent obtained.
5. Whether the Respondent was aware of the prohibited nature of the activity.
6. Level of client sophistication: client's ability to appreciate conflict of interest and provide informed consent.
7. Whether the Respondent concealed or attempted to conceal the activity from the client and/or the Member.
8. Whether the client was harmed by the activity and if so to what extent.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$10,000.
- Write or rewrite an appropriate industry course (e.g. Canadian Investment Funds Course).
- Period of increased supervision for 12 to 24 months
- Suspension.
- Permanent prohibition in egregious cases

5. CHURNING AND EXCESSIVE TRADING

Excessive trading, “churning” or “overtrading” is a practice whereby an Approved Person recommends a trade or multiple trades in a client's account for the purpose of generating sales commissions, increasing trailer fees, extending DSC periods or otherwise creating a benefit for the Approved Person, where there is little or no rationale for the trade(s) or where the trade(s) will have little or no economic benefit for the client.

SPECIFIC FACTORS THAT MAY BE CONSIDERED

1. Length of time churning took place.
2. Extent of churning (i.e. number and value of trades).
3. Number of clients subject to churning.
4. Existence of any client losses.
5. Whether the Respondent misled the client as to the reasons for the trade(s).
6. Whether the Respondent concealed or attempted to conceal the activity from the client and/or the Member.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$10,000.
- Write or rewrite an appropriate industry course (e.g. Canadian Investment Funds Course).
- Minimum 12 months increased supervision
- Suspension
- Permanent prohibition in egregious cases

6. FORGERY/FRAUD/THEFT/MISAPPROPRIATION/MISAPPLICATION

This category involves deceptive activities intended to deprive a person of property or rights.

Forgery is the creation of a false document with the intent that it be acted upon as the original or genuine document, where the victim is deprived of property or rights.

Fraud is generally defined as an act of deceiving and misrepresenting, more specifically an intentional distortion of truth in order to induce another to part with something of value or to surrender a legal right.

Theft is the taking of property, not rightfully in one's possession, for personal use and exploitation.

Misappropriation is where a person has a right to be in possession of the property but puts it to his/her own benefit.

Misapplication of Funds is where funds in the rightful possession of an Approved Person or Member are put to an improper purpose for the benefit of a third part

FACTORS THAT MAY BE CONSIDERED

1. Nature of circumstances and conduct.
2. Client knowledge/consent.
3. Loss to client (s).
4. The Respondent's intent.
5. Whether the Respondent was unjustly enriched and obtained/attempted to obtain a financial benefit from the fraudulent conduct.
6. Whether the Respondent concealed or attempted to conceal the activity from the Member or the MFDA.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$25,000.
- In almost all cases a permanent prohibition will be sought.
- Fine should include the amount of any financial benefit to the Respondent.

7. OUTSIDE BUSINESS ACTIVITY

“Outside business activity” means any business carried on by an Approved Person other than business done on behalf of the Approved Person’s Member.

Outside business activity may involve business activity that is securities related or non-securities related.

Securities related business.

MFDA Rule 1.1.1 requires that all “securities related business” must be conducted through the Member, with exceptions for the sale of deposit instruments not on account of the Member and the activities of bank employees conducted in accordance with the Bank Act.

“Securities related business” is defined in By-law No. 1 to mean any business or activity that constitutes trading or advising in securities for the purposes of applicable securities legislation in any jurisdiction in Canada. This includes securities sold pursuant to exemptions under applicable securities legislation.

Apart from the specific exceptions in Rule 1.1.1, Approved Persons are prohibited from selling or advising on any investments that would be considered securities under applicable legislation through any entity other than the Member (often referred to as “selling away” or “off book trading”).

Non-securities related business.

Pursuant to MFDA Rule 1.2.1(d) an Approved Person can only be gainfully employed in a dual occupation provided that:

- the Approved Person is permitted by legislation to devote less than his or her full time to the business of the Member for which he or she acts on behalf of;
- The activity is not prohibited by a securities commission in the jurisdiction in which the Approved Person carries on business;
- The Member is aware of and has approved the outside activity;
- The Member has appropriate procedures to ensure continuous service to clients and to address potential conflicts of interest;
- The activity does not bring the MFDA, its Members, or the mutual fund industry into disrepute;

- clear disclosure is provided to clients that any activities related to such other gainful occupation are not business of the Member and are not the responsibility of the Member.

FACTORS THAT MAY BE CONSIDERED

1. Magnitude (in size and value) of outside business activity.
2. Number of clients affected.
3. Magnitude of client losses.
4. Suitability of outside business activity if involving securities.
5. Compensation received by the Respondent.
6. Any personal interest of the Respondent in outside business activity.
7. Whether the Respondent had honest but mistaken belief that proper approval obtained.
8. Legality of outside activity.
9. Whether outside activity resulted directly or indirectly in injury to clients of the Member and, if so, the nature and extent of the injury.
10. Whether the marketing and sale of the product or service could have created the impression that the Member had approved the product or service.
11. Whether the Respondent misled the Member about the existence of the outside activity or otherwise concealed the activity from the Member.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$10,000.
- Write or rewrite an appropriate industry course (e.g. Canadian Investment Funds Course).
- Period of increased supervision.
- Suspension.
- Permanent prohibition in egregious cases (e.g. undisclosed activity)

8. POLICIES AND PROCEDURES

Rule 2.10 requires Altimum Mutuals Inc. to establish and maintain written policies and procedures (that have been approved by senior management) for dealing with clients and ensuring compliance with the Rules, By-laws and Policies of the MFDA and applicable securities legislation.

Approved Persons must comply with the policies and procedures as well as the internal controls established by the Member.

FACTORS THAT MAY BE CONSIDERED

1. Extent and nature of internal control inadequacy (e.g. capital requirement control, insurance or client funds/securities segregation or safekeeping problem).
2. Intentional or reckless disregard for requirements, or whether due to carelessness or inadvertence.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$5,000.
- Write or rewrite an appropriate industry course (e.g. IFIC Officers', Partners' and Directors' Course or Canadian Investment Funds Course).
- Suspension.
- Permanent prohibition in egregious cases.

9. PROVINCIAL SECURITIES REQUIREMENTS (LEGISLATION, ORDERS, TERMS AND CONDITIONS OF REGISTRATION)

Altimum Mutuals Inc. and Approved Persons must ensure that their conduct is in accordance with the relevant Securities Act(s), and any applicable Regulations, Policies, Interpretation Notes or Bulletins enacted thereto, as well as any Orders made against the Members and Approved Persons or any terms and conditions placed on their registrations.

More generally, Altimum Mutuals Inc. and Approved Persons have obligations to not knowingly participate in, nor assist in, any act in contravention of any applicable law, rule, or regulation of any government, governmental agency or regulatory agency governing his/her professional, financial or business activities.

This conduct may cover a very wide range of offences and various principles and penalties may be appropriate.

FACTORS THAT MAY BE CONSIDERED

1. Seriousness of legislative breach.
2. Client(s) knowledge/consent.
3. Loss to client(s).
4. Respondent's intent.
5. Whether the Respondent was unjustly enriched and obtained/attempted to obtain a financial benefit.
6. Whether the Respondent concealed or attempted to conceal their conduct from the Member or the MFDA.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$5,000.
- Write or rewrite an appropriate industry course (e.g. IFIC Officers', Partners' and Directors' Course or Canadian Investment Funds Course).
- Suspension.
- Permanent prohibition in egregious cases.

10. REFERRAL ARRANGEMENTS

A referral arrangement is an arrangement whereby Altimum Mutuals Inc. or an Approved Person is paid or pays a fee for the referral of a client to or from another person, but does not include payments made to third party service providers that do not deal directly with clients and are not engaged in securities related business.

An Approved Person is not permitted to enter into a referral arrangement.

There is a potential conflict of interest in all paid referral arrangements because the individual that makes the referral has a financial interest in introducing the client to the other service provider.

Clients must be given sufficient information to appreciate the extent of the conflict before the referral takes place.

In addition, controls must be put in place to ensure that clients are not misled as to the nature of the relationship between the referring parties, or as to any licensing limitations of the parties to the arrangements.

Referrals of Specific Securities

Additional issues arise where a referral is tied to a specific security rather than a general service.

In many cases, the specific securities in respect of the referrals are not securities that the Member is appropriately registered or licensed to sell directly. This may result in Members and Approved Persons giving advice and making recommendations with respect to the specific security without having the required licensing or proficiency to do so.

Conversely, where the Member is appropriately registered or licensed to sell the security directly, the Member should not be entering into a referral arrangement with another entity with respect to the security but should sell the security for the account of the Member and through the facilities of the Member.

FACTORS THAT MAY BE CONSIDERED

1. Magnitude (in size and value) of referrals.
2. Number of clients affected.
3. Magnitude of client losses (if any).
4. Suitability of referrals if involving securities.
5. Compensation received by the Respondent.
6. Any personal interest of the Respondent in referral.
7. Existence of client complaints.
8. Legality of referral.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$10,000.
- Write or rewrite an appropriate industry course (e.g. IFIC Officers', Partners' and Directors' Course or Canadian Investment Funds Course).
- Suspension.
- Permanent prohibition in egregious cases.

11. SALES COMMUNICATIONS

MFDA Rule 2.7.3 requires that a designated partner, director, officer, and compliance officer or branch manager approve all advertisements and sales communications before they are issued.

The definition of "advertisement" in Rule 2.7.1 includes television or radio commercials or commentaries, billboards, internet websites, newspapers and magazine advertisements or commentaries and any published material promoting the business of a Member and any other sales literature disseminated through the communications media.

The rationale for requiring approval prior to the distribution of advertisements or sales literature is to ensure that no misleading, inaccurate and otherwise prohibited information is provided to a client who may act upon such information in making investment decisions.

In addition, all client communications must be in accordance with National Instrument 81-105.

FACTORS THAT MAY BE CONSIDERED

1. Whether materials distributed would have received approval by Member.
2. Materiality of misrepresentations or prohibited information, if any, contained in materials.
3. Whether misrepresentations are likely to bring the mutual fund industry into disrepute.

4. Whether client(s) acted upon misrepresentations or prohibited information contained in materials.
5. Whether the Respondent had honest but mistaken belief that approval was obtained.
6. Number of clients in receipt of materials.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$2,500.
- Period of increased supervision.
- Suspension (where material misrepresentations and/or other prohibited information contained in materials.)

12. SUITABILITY & KNOW YOUR CLIENT

Altimum Mutuals Inc. and Approved Persons are required to ensure that each order accepted or recommendation made for any account of a client is suitable for the client and in keeping with the client's investment objectives.

Know-Your-Client requirements are a fundamental part of meeting basic suitability obligations.

The “Know-Your-Client” obligation is the obligation to learn about and appropriately document the client’s personal financial situation, financial sophistication and investment experience, investment objectives and risk tolerance.

The “suitability” obligation includes the obligation to determine whether an investment is appropriate for a particular client at the time the recommendation is made or remains appropriate when the account is transferred to a different Member or to a different Approved Person at the same Member.

Both the Approved Person and Altimum Mutuals Inc. must meet the “know your client” and “suitability” obligations.

The requirement to update a New Account Application Form (NAAF) is a corollary to the Know-Your-Client rule.

All material information about a client should be reflected in the client’s account documentation.

The account documentation should be updated to reflect any material changes to the client’s status in order to assure the suitability of investment recommendations. The suitability obligation also includes the requirement to make clients aware of the risks associated with a specific product or investment strategy, including the use of leverage.

FACTORS THAT MAY BE CONSIDERED

Suitability

1. Extent of research conducted by the Approved Person with respect to the recommended security.
2. Magnitude of losses directly attributable to the unsuitable recommendations.
3. The number of clients affected.
4. The level of sophistication of the clients.
5. The existence of any pattern of making unsuitable recommendations.
6. Presence of any ulterior motive (i.e. financial gain to the Respondent).
7. Evidence that client was misled as to the suitability of the investment.
8. Evidence that Approved Person attempted to cover-up or conceal unsuitable investments.

Know Your Client

1. Nature and extent of failure to know your client.
2. Magnitude of losses directly attributable to the failure to know your client.
3. The level of sophistication of the client.
4. Extent of due diligence conducted to determine the essential facts of the client.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$10,000.
- Write or rewrite an appropriate industry course (e.g. Canadian Investment Funds Course).
- Period of increased supervision.
- Suspension.
- Termination in egregious cases.
- Permanent prohibition in egregious cases.

13. FAILURE TO COOPERATE

Section 22.1 of MFDA By-law No. 1 provides that for the purpose of an examination or investigation conducted by the MFDA, a Member, Approved Person or other person under the jurisdiction of the MFDA may be required to:

1. Submit a report concerning the matters under investigation;
2. To produce relevant books records and accounts;
3. To attend and give information respecting the matter under investigation; and
4. To make the above available through any directors, officers, employees, agents and other persons under the jurisdiction of the MFDA.

Failure to cooperate with an MFDA investigation, whether by a Member or an Approved Person, is serious misconduct because it subverts the MFDA's ability to perform its regulatory function.

This category of misconduct is broad enough to include the following:

- Failure to cooperate or respond in a timely manner
- Failure to respond truthfully
- Failure to cooperate or respond completely

FACTORS THAT MAY BE CONSIDERED

1. Whether the contravention was intentional or inadvertent.
2. Whether there was complete or only partial non-compliance.
3. The impact that the non-compliance had on the investigation.
4. Whether the Respondent can demonstrate that the refusal to cooperate was based on reasonable reliance on competent legal advice.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$50,000.
- Termination of Member or permanent prohibition of an Approved Person.
- Interim order pursuant to s. 24.3 of MFDA By-law No. 1.

14. DISCRETIONARY/UNAUTHORIZED TRADING

Unauthorized Trading is the practice whereby a Member or Approved Person makes trades without the client's knowledge or approval.

Discretionary Trading is the practice whereby a Member or Approved Person is granted authority by the client to make a trade without obtaining specific instructions from the client prior to the execution of the trade concerning one or more of the elements of the trade:

- The selection of the security to be purchased or sold, the amount of the security to be purchased or sold and the timing of the trade.

Under the terms of their registration, Members and Approved Persons are not permitted to engage in unauthorized trading or discretionary trading.

FACTORS THAT MAY BE CONSIDERED

1. Number of trades.
2. Whether client provided verbal authority to engage in discretionary trading.
3. Underlying reason for engaging in trading. (e.g. For personal financial gain).

4. The number of clients affected.
5. Period of time over which the trading took place.
6. Suitability of trades.
7. Magnitude of client losses.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$5,000.
- Period of increased supervision.
- Write or rewrite an appropriate industry course (e.g. Canadian Investment Funds Course).
- Suspension.
- Permanent prohibition in egregious cases.

15. STANDARD OF CONDUCT

Rule 2.1.1 provides that Altimum Mutuals Inc. and Approved Persons shall comply with a general standard of conduct. In accordance with the Rule, each Member and each Approved Person of a Member shall;

- (a) Deal fairly, honestly and in good faith with its clients;
- (b) Observe high standards of ethics and conduct in the transaction of business;
- (c) Not engage in any business conduct or practice which is unbecoming or detrimental to the public interest; and
- (d) Be of such character and business repute and have such experience and training as is consistent with the standards described in this Rule 2.1.1, or as may be prescribed by the Corporation.

The standard of conduct rule has a broad application.

It provides for a standard that is able to encompass misconduct that is not directly captured in the Rules.

It is applicable in situations where there is no specific rule that prohibits the misconduct or where there is a specific rule breach but the misconduct is also below the standard expected in the industry.

In egregious cases, this may include a failure to service clients in a prompt and reasonable manner.

FACTORS THAT MAY BE CONSIDERED

1. Nature of the circumstances and conduct.
2. Number of individuals affected.

3. Whether the conduct is likely to bring the individual, the Member or the mutual fund industry into disrepute.

PENALTY TYPES & RANGES THAT MAY BE IMPOSED BY THE MFDA

Approved Person:

- Fine: Minimum of \$5,000.
- Write or rewrite an appropriate industry course (e.g. IFIC Officers', Partners' and Directors' Course or Canadian Investment Funds Course).
- Suspension.
- Permanent prohibition in egregious cases.