NOTE: Please note the purpose of this document is to provide a sample template for PMAC member firms to develop their own Personal Trading Guidelines or Policy and comprises a range of practices to be considered. The template reflects common practices of surveyed PMAC members in dealing with employee personal trading as well as a review of Canadian and US regulatory requirements, and the recommendations of the Investment Funds Institute of Canada, the Investment Company Institute, and the CFA Institute. It should be recognized that certain practices will be more suited to some members than others, depending on the size of the firm and the nature of its business, and may not be feasible or appropriate for all firms. Other compensating controls may be more effective in any particular situation. The items below are not meant to provide an exhaustive list of all issues associated with personal trading but are key areas for firms to consider in policy development. This template does not necessarily reflect all regulatory requirements of US jurisdictions and members should obtain appropriate legal advice as necessary.

Introduction

The purpose of monitoring and restricting personal trading is to ensure that Access Persons (as defined below) do not take advantage of their knowledge of confidential client trading information or their position with the firm to unfairly profit through their personal trading activities. Access Persons owe a fiduciary duty to clients and in this position of trust, they must always place the best interests of the client ahead of their own personal interests and avoid any actual or perceived conflict of interest.

1. Policy Framework

- Firms must have a clear written policy dealing with employee personal trading.
- The policy should designate an officer responsible for the policy, preferably the Chief Compliance Officer.
- The policy should be distributed to all Access Persons including new employees becoming Access Persons or those employees transferred to positions in which they become Access Persons.
- All firms should provide training to explain the policy and answer questions; field support should be provided, where applicable, for Access Persons in remote locations.
• Annual acknowledgement should be obtained from Access Persons confirming that they have read and understood the policy, have complied with it and agree to continue to comply with it.

2. Application of the Policy

• Access Persons

The policy should apply to employees with access to information on proposed client trades or strategies. This is not limited to those with direct involvement in investment decision-making or access to computer systems containing such information, but also includes employees working with or in proximity to persons involved in decision-making who might have the opportunity to see written information or hear discussions relating to client trading or strategy. For smaller firms it is recommended that all employees be deemed Access Persons. Employees may include those engaged on a full or part time, permanent or temporary basis, on contract or under consulting arrangements as may be appropriate to each firm.

Directors and officers should be included if they have access to information as described above or are involved in the business of the firm on a day to day basis.

• Trading Accounts

All brokerage or investment accounts for which the Access Person is named as a holder, or has a beneficial interest in or control over, including accounts of a spouse, domestic partner or family members living in the same household, should be included as well as any accounts in which the trading is influenced by the Access Person. These include those in which the Access Person acts as a trustee, executor, custodian, guardian, conservator, or in any other fiduciary capacity.

Exceptions may be given for spousal or family member accounts where the Access Person certifies that he or she has no interest in the account and does not influence trading or investment strategy, including those that are managed for the Access Person on a discretionary managed basis. Consideration may be given to obtaining details of these accounts or requiring the reporting, but not pre-clearance, of trades in family member accounts. A sample document in respect of Access Person acknowledgement in respect of accounts managed on a discretionary basis is provided as Appendix A.

3. Reporting Requirements

Access Persons should report their trades and holdings, and the details of their accounts to the firm through the following documentation:

• Duplicate statements of account and trade confirmations, which should be sent directly from the broker to the firm’s compliance department. Alternatively, the firm may develop systems to receive and store the information electronically. A sample instruction letter to broker/dealers requesting that copies of account statements and trade confirmations be sent to the firm’s compliance department is provided as Appendix B.

• An annual certification of accounts (or confirmation that there are no such accounts).
• Prompt disclosure of any new accounts opened.

4. Personal Trading Restrictions

• **Personal investments in limited offerings** (private placements and new equity issues) should be prohibited where there is a possibility that Access Persons will benefit from their position with the firm to obtain allocations for personal trading accounts that are not generally available to clients or public investors, particularly in hot Initial Public Offerings.

• **Pre-clearance of personal trades** minimize the potential for conflict with client trading. Pre-clearance is not required of Exempt Securities which should be clearly defined, and would include government or money market securities, mutual funds and pools, and other securities, if:

  o Neither client nor personal trading affects the price of the securities and there is no limit on the availability of the securities such as index tracking trust units; or
  o The Access Person does not have control over trading or influence the timing of trading, such as a dividend reinvestment plan or some employee share purchase plans.

**Non-Exempt Securities** - To provide clarity for Access Persons, securities that are NOT exempt from pre-clearance should be listed. The following are examples of Non-Exempt Securities, i.e. those that should be subject to preclearance and reporting:

  o Government bonds issued by governments other than G8 countries;
  o Corporate bonds;
  o Stocks (excluding the exemptions noted in Exempt Securities Section);
  o Income trusts;
  o Mutual funds, segregated funds or pooled funds managed by the Firm or an affiliate;
  o Closed-end mutual funds;
  o Holding Company Depository Receipts (HOLDRs);
  o Notes;
  o Convertible securities;
  o Preferred shares;
  o Single stock futures and all other derivatives; and
  o Limited partnership and limited liability company interests (e.g. hedge funds).

**Exempt Securities** - To provide clarity for Access Persons, securities that are exempt from pre-clearance should be listed. The following are examples of securities that may be considered for exemption from pre-clearance procedures:

  o Securities of open-end mutual funds, segregated funds and pooled trust funds (except for mutual funds, segregated funds or pooled funds managed by the Firm or an affiliate);
  o Securities issued or guaranteed by the Government of Canada, or the government of any province or territory in Canada;
  o Securities issued or guaranteed by other G8 countries governments;
  o GICs, CD’s and other deposits with financial institutions;
  o Short-term debt securities maturing in less than 91 days from their date of issue;
o All broadly based market Exchange Traded Funds (“ETFs”), with the exception of ETFs that contain Holding Company Depository Receipts (“HOLDRs”), which are subject to pre-clearance;
o Investments with external discretionary money managers;
o Physical commodities or securities relating to those commodities;
o Options, futures or other derivatives based on any broadly based market indices approved by the CCO; and
o Purchases made as part of an automatic dividend reinvestment plan; stock purchase plan acquisitions and transactions resulting from a corporate action applicable to all similar security holders.

Note: Firms may choose to incorporate a De Minimus exemption from pre-clearance. A De Minimus policy could include personal trading in large cap, highly liquid securities such as those in the S&P/TSX 60 Index, the S&P 100 Index or the S&P Global 100 Index (at time of purchase).

Certain fixed income securities may be exempted from pre-clearance if due to the nature or size of the client trading, the same trading strategies and opportunities would not be available to Access Persons in their personal trading accounts. Consideration should be given to requiring pre-clearance of mutual funds and pools managed by the firm or an affiliate as it would enable the firm to review personal trades for market timing and late trading.

- **Black-out periods and alternative controls**

  o **Pre-trade blackout periods** may be used to reduce opportunities for front-running. They require personal trades to be unwound if the trade occurs within a specified time period before a client trade is entered. Pre-trade black-out periods can be difficult to administer because the unwinding of trades is cumbersome. They can also be inappropriated where the firm is constantly trading in a large number of securities or where trading strategies are volatile and Access Persons are not able to reasonably avoid trading during the blackout period. In addition, potential front-running concerns may be addressed by other means including:

    ▪ **Requiring certification** that the Access Person is not aware of any pending or contemplated client trades in the security at the time pre-clearance is requested;
    ▪ **Maintaining a watch list** of securities being analyzed or recommended for clients and prohibiting personal trading in those securities; and/or
    ▪ **Post trade monitoring** of all personal trades that occur in the same securities prior to client trades for evidence of front-running.

* Firms typically adopt a 3-5 day blackout period.

  o **A same day plus 1 day post-trade blackout period** is generally recommended for all affected persons to prevent personal trades from conflicting with client trading. This prevents Access Persons from obtaining pre-clearance on the same day or the day after a client account trades. Longer periods may be considered for portfolio managers depending on the size of the client trades they have authority for and the liquidity of the securities involved. It may also be appropriate to allow general exemptions from the blackout period for personal trades:

    ▪ In large cap stocks if it is highly unlikely that any of the firm’s client trading or the personal trading could affect the market price; and/or,
• Where the volume of shares traded is so small that they would not reasonably be considered to conflict with client trading.

  o **Trade approval expires one trading day following** the day on which approval has been given, or upon notification that the consent has been revoked. The Access Person must re-apply for pre-approval if any part of the approved trade has not been completed by the end of the day and he or she still wishes to complete the remainder of the trade at a later date.

  o **Qualitative periodic review of personal trading** as an alternative to blackout periods. This is best suited for smaller firms with a limited number of investment mandates where the compliance officer reviewing personal trading is aware of all of the firm’s investment strategies and performance. A periodic post trade review could be done of each personal trading account to look for signs of abuse of confidential information or disparities in performance between personal account(s) and client accounts.

5. Exemptions

Exemptions may be allowed on a case-by-case basis by a designated Compliance Officer if:

• The policy requirements would result in undue hardship to an Access Person; and

• The trade will not conflict with the interests of clients or be contrary to any other legal or ethical obligations of the firm or its employees.

Exemptions from the policy should be applied for in writing and the reasons for granting any exemption should be documented.

6. Excess Trading

While frequent personal trading may not in and of itself raise issues under applicable laws and regulations, a very high volume of personal trading can be time consuming and it can increase the risk of actual conflicts or mere appearance of conflicts with clients’ portfolio transactions. Accordingly, firms should strongly discourage unusually high levels of personal trading activity. If possible, the Chief Compliance Officer should monitor for excess personal trading by Access Persons and if a pattern of excessive trading is identified, the Chief Compliance Officer should take appropriate action under their respective Codes of Ethics.

7. Compliance Monitoring & Recordkeeping

Processes should be implemented for:

• Maintaining the following documents in employee or other files:

  o Trade confirmations and account statements;
  o Annual acknowledgement, including a list of accounts;
  o All pre-clearances approvals and denials issued; and
  o A record of timely review of pre-clearance forms to account statements and trade confirmations and resolution of any non-complaint trades.
• Maintaining record of reporting to the Board of Directors (or equivalent) and/or the IRC (where applicable) on personal trading issues.

• Maintaining the confidentiality of all information received and establishing and implementing a destruction schedule consistent with the firm’s legal and regulatory record keeping and retention obligations and firm policies.

8. Non-Compliance

When any Access Person discovers that their personal trading, or that of related persons, is not in compliance with the Personal Trading Policy, they should report it immediately to the Chief Compliance Officer. The Chief Compliance Officer (or a designate) must review and consider actions to be taken. Generally a case-by-case determination will need to be made consistent with the seriousness of the situation and to determine the appropriate action.

For failure to obtain pre-clearance, the Chief Compliance Officer may consider:

• Whether the trade would have been approved if pre-clearance had been requested;
• Whether the trade was in actual conflict with any client trades; and
• Whether there is any pattern of non-compliant personal trading by the Access Person.

Other non-compliant activity may include making prohibited investments, maintaining undisclosed accounts, front-running of client orders, and market timing or late trading in mutual fund securities.

Sanctions for non-compliance may include one or more of the following:

• Issue of a warning or reprimand;
• Requiring the Access Person to reverse the personal trade;
• Requiring the disgorgement of any profit earned (the difference between the trade price obtained by the Access Person and any proximate client trade) and paying this amount to the client account if appropriate or making a donation of the amount to a charity (with no tax deduction to the employee); and
• Suspension, demotion or dismissal of the Access Person if a violation is serious or the Access Person has habitually violated the policy determined within the framework of legal and regulatory rights that may be applicable.


Access Persons’ personal trading conduct represents one of major influences upon the reputation of any firm. For that reason, firms would be prudent to automate as much as practicable their procedures for administration and monitoring of personal trading. Benefits of automating, for example, the pre-clearance of personal trades of a firm’s Access Persons, could result in considerable reduction in risks of non-compliance with the firm’s Personal Trading Policy. Merely having to go through the process of filing the pre-clearance form, waiting for its approval, and having system-driven restrictions in place that in essence foster a “buy-and-hold” trading strategy, often serves as a sufficient deterrent for frontrunning or day-trading.
Admittedly, third-party vendor designed systems for administration and monitoring of a firm’s Personal Trading Policy can be very expensive and likely out of range for smaller firms. However, beside merely weighing costs versus minimized risks of non-compliance when making a business decision whether or not to pursue automated administration and monitoring of Access Persons’ personal trading, firms are encouraged to consider alternative venues, such as designing their own automated systems in-house with help of IT resources.
Appendix A: Sample Letter for Authorization of Discretionary Managed Personal Trading Account

[insert firm name] employee: [insert employee name]

The [insert firm name] employee noted above agrees to the following guidelines concerning the fully discretionary trading account(s) #________________ managed exclusively by ____________________.

Abiding by these guidelines will permit the employee to maintain a brokerage account that does not require pre-clearance of trades as otherwise stated in the [insert firm name] Personal Trading Policy.

The employee acknowledges the following:

- Neither the employee, nor anyone in the employee’s household may discuss the firm’s current holdings in its client accounts or potential transactions in any of its funds.
- The employee must disclose all trades via trade confirmations and monthly brokerage statements sent to the firm’s compliance department.
- The employee must not discuss any specific security transactions or potential transactions in the discretionary account managed by the Investment Advisor or any member of the advisor’s team.
- The employee indicates that they have no direct or indirect influence of control over the account.
- The [insert firm name] compliance department will review all trades in the above account(s) on a monthly basis to ensure there are no perceived conflicts of interest.

If the employee or the Investment Advisor has any questions or concern over this acknowledgement, the trades in the account(s) or any other matter that may relate to this(these) account(s), please contact the [insert firm name] compliance department immediately.

____________________________________
Employee Name (Please Print)

____________________________________
Employee Signature

____________________________________
Date
Appendix B: Sample Letter of Request from Broker/Dealer for Personal Trading Account Statements

BROKER NAME
BROKER ADDRESS

DATE

Attention: Compliance Department

RE: [insert employee name] – account # [insert account number(s)]

[insert employee name] is an employee of [insert firm name]. As an employee of [insert firm name], duplicate statements of all trading accounts listed above and any confirmations of trades executed within those accounts must be delivered to the following address;

[insert firm name]
Attn: Compliance Officer
Street, Suite number
City, Province
Postal Code

If you require any further information, please contact the undersigned at [insert contact phone number and/or email address].

Yours sincerely,

_________________________
Compliance Officer

I, Employee Name, consent to the above.

_________________________
(Name)

cc. Employee Name