

## Chapter 13

# SRO Notices and Disciplinary Proceedings

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### 13.1.1 Recognition of the Investment Industry Regulatory Organization of Canada (IIROC) – Notice of Approval

#### RECOGNITION OF THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA (IIROC)

##### NOTICE OF APPROVAL

The Investment Dealers Association of Canada (IDA) and Market Regulation Services Inc. (RS) have agreed to combine their regulatory activities into a single organization known as the Investment Industry Regulatory Organization of Canada (IIROC). Effective June 1, 2008, the Ontario Securities Commission; British Columbia Securities Commission; Alberta Securities Commission; Saskatchewan Financial Services Commission; Manitoba Securities Commission; Autorité des marchés financiers; Nova Scotia Securities Commission; New Brunswick Securities Commission; Financial Services Regulation Division, Department of Government Services, Consumer & Commercial Affairs Branch (Newfoundland and Labrador); and Securities Office, Consumer, Corporate and Insurance Services Division, Office of the Attorney General (Prince Edward Island) (the Recognizing Regulators) recognized IIROC as a self-regulatory organization (SRO). Both the IDA and/or RS are currently recognized as an SRO in certain of these jurisdictions.

On February 8, 2008, we published the IIROC application for recognition for comment. Three comments were received. A summary of the comments and responses prepared by IIROC is attached.

The IIROC recognition has the following components:

1. **Recognition order with terms and conditions** – The Recognizing Regulators issued orders recognizing IIROC with terms and conditions based on recognition criteria. A copy of the Recognition Order is attached.
2. **Oversight program** – The Recognizing Regulators established an oversight program for IIROC under a memorandum of understanding (MOU). The MOU includes a joint rule review protocol for the review and approval of rules, and both are attached.
3. **IIROC documents** – As part of the recognition, the Recognizing Regulators have approved IIROC's By-law No. 1 and Transition Rule No. 1 that adopts the existing RS and IDA rules, policies and other similar instruments, subject to incidental conforming changes made to ensure consistency, and establishes a process for hearing committees and panels. A copy of By-law No. 1 and Transition Rule No. 1 is attached. Please note that the existing IDA and RS rules, with the incidental changes are available on the OSC website ([www.osc.gov.on.ca](http://www.osc.gov.on.ca)).
4. **Continued recognition of the IDA and RS** – IIROC applied to continue the recognition of the IDA and RS for up to five years, and to amend and restate their respective recognition orders to ensure their continuing authority over conduct prior to June 1, 2008. As part of the recognition of IIROC, we have approved the continued recognition of the IDA and RS. A copy of each of the amended and restated recognition orders for the IDA and RS is attached.
5. **Consequential amendments** – As part of the recognition of IIROC, we have approved amendments to the following documents to refer to IIROC, instead of RS:
  - (a) Decision dated June 29, 2005 dealing with subscribers to an alternative trading system;
  - (b) Recognition Order of TSX Group Inc. and TSX Inc.; and
  - (c) Recognition Order of Canadian Trading and Quotation System Inc (CNQ).

Copies of these amended orders are attached.

As part of the recognition, the Commission will also assign to IIROC certain powers and duties of the Director under the *Securities Act* (Ontario) and the *Commodity Futures Act* (Ontario) relating to registration. The assignment order will be published shortly.

We note that certain of the existing regulations, rules, orders, policies, notices or other instruments (Provisions) in the jurisdictions of the various Canadian Securities Administrators may refer to the IDA or RS or both. As circumstances permit, staff

of the relevant securities regulatory authorities will be reviewing proposed amendments to their respective Provisions as necessary to reflect the combination of the IDA and RS to form IIROC. In the meantime, references to the IDA or RS in existing Provisions may generally be treated and interpreted as references to IIROC.

May 30, 2008

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

SUMMARY OF PUBLIC COMMENTS AND RESPONSE

**Memo**

To: Canadian Securities Administrators

Date: May 28, 2008

From: IIROC

Subject: **Application for Recognition of the Investment Industry Regulatory Organization of Canada (“IIROC”)**

On behalf of IIROC, I am pleased to provide the response of the Investment Dealers Association of Canada (“IDA”) and Market Regulation Services Inc. (“RS”) to the comment letter on the application for recognition of IIROC received from the Investment Funds Institute of Canada (“IFIC”) and egX Canada Inc. (“egX”) (each dated March 7, 2008), and from Alpha Trading Systems Limited Partnership (“Alpha”) dated March 18, 2008.

The IDA and RS welcome the support that IFIC and egX have expressed for the creation of IIROC, and the support that Alpha has expressed for the independence, fairness and impartiality of IIROC.

With respect to the matters raised in IFIC’s comment letter, we agree that collaborative dialogue with industry representatives should be a critical element of IIROC’s policy development process, and look forward to continuing to engage the industry in such consultations in connection with the current initiatives identified in IFIC’s letter and future IIROC policy initiatives.

We also reaffirm our belief that the creation of IIROC will simplify and streamline the self-regulatory system and enhance its quality and effectiveness, in the manner described in the egX letter.

With respect to the Alpha letter, we note at the outset that many of Alpha’s comments relate to existing features of the regulatory structure that are beyond the mandate of public comment on the merger proposal. We nevertheless acknowledge that these are issues that the CSA may well wish to consider in the appropriate context apart from the merger, and we would welcome the opportunity to discuss these issues with the CSA and affected market participants as the regulatory structure in Canada evolves.

Our responses to the specific points raised by Alpha are as follows:

**Corporate Governance**

*Jurisdiction Over Non-Members:* The Alpha letter suggests that IIROC may not have jurisdiction to regulate market participants that are not members of IIROC or representatives of IIROC members (i.e., ATS subscribers and their directors, officers and employees). IIROC’s jurisdiction over such market participants will be on the same contractual basis as RS’s current jurisdiction over them. With respect to market participants accessing a marketplace through “DMA” (dealer-sponsored direct access), in April 2007 RS’s recognizing regulators and RS published for comment a proposal to amend the ATS Rules and UMIR to extend RS’s jurisdiction to include the trading conduct of individuals and firms who are provided with dealer-sponsored direct access to an exchange or ATS (other than pursuant to order execution accounts). These proposed amendments were open for public comment until July 2007, and IIROC looks forward to discussing the comments received with the CSA and to jointly determining whether changes to the original proposal are warranted in view of those comments and in consideration of international initiatives in this regard. In summary, we do not believe that membership in IIROC is a necessary condition for “consistent and effective regulation” of market participants under the ATS Rules.

*Categorization of Marketplace Members:* The differentiated status of exchanges and ATSs to which Alpha’s letter refers – in which ATSs (but not exchanges) are subject to both dealer and market regulation by IIROC – reflects the regulatory structure established by securities legislation and the ATS rules. To the extent that any resulting “competitive advantage” accrues to exchanges, as suggested by Alpha, this is a function of that regulatory structure, and is not a result of the merger and creation of IIROC. We question whether any such competitive advantage arises, however. Marketplaces that are exchanges are also subject to additional regulatory oversight: Under the ATS Rules provincial securities commissions regulate the activities of recognized exchanges while RS regulates trading activity on such exchanges.

**IIROC Board of Directors**

*Buy-Side Representation:* The creation of IIROC is intended to be an incremental development in the evolution of the self-regulatory structure in Canada, building on the existing jurisdiction of each of the IDA and RS. Buy-side entities are not currently members of either SRO, and will not be members of IIROC. The structure we adopted for the IIROC Board balances Non-Independent Directors (i.e., directors who are associated with IIROC members) and Independent Directors; we do not see what would be gained by creating a third category of buy-side directors that are neither associated with members nor considered

independent. However, buy-side representation on the Board is very important to IIROC, as evidenced by the actual slate of initial directors. In addition, buy-side entities will have the opportunity to participate in IIROC's policy development process through advisory committees. Finally, to take the view that individuals associated with buy-side entities are not "independent", as advocated by Alpha, would reduce the pool of qualified Independent Directors without any corresponding public interest benefit.

*TSX Representation:* TSX's governance rights in IIROC were the subject of extensive negotiation between IIROC and TSX, and subsequent correspondence and discussion between IIROC and the CSA, leading up to the publication of our application. TSX is agreeing to relinquish its 50% ownership interest and current governance rights in RS in return for (i) the right to recommend for nomination a Marketplace Director; and (ii) representation on the Finance and Audit Committee, only for so long as TSX meets the conditions set out in the TSX Regulation Services Agreement. This resolution was essential to IIROC attaining the "independence, fairness and impartiality" reflected in its governance structure which Alpha acknowledges and supports.

We also considered the option of providing representation on the IIROC Board to other marketplaces that achieve a threshold Market Share. The IIROC Board balances the number of Independent and non-Independent Directors, as well as the number of Dealer Directors and Marketplace Directors. For each new Marketplace Director, maintaining this balance would require the addition of a Dealer Director and *two* Independent Directors, increasing the size of the Board by *four* members. We believe that we should try to keep the Board to a more manageable size. We can, in practice, deal with the situation posited by Alpha and are committed to revisiting the issue in the event that this hypothetical situation becomes a reality.

*Market Share Calculation:* We acknowledge and agree with Alpha's drafting note and have amended the definition of Market Share in IIROC's By-law No. 1 by adding the underlined text below:

**"Market Share"** means the proportion of trading activity of any particular Marketplace of the trading activity of all Marketplaces with respect to exchange-traded securities other than derivatives and foreign exchange-traded securities other than derivatives calculated as to one-third by trading value, one-third by trading volume and one-third by number of trades, all in the immediately preceding calendar year calculated in accordance with guidelines approved by the Board. In the event of a dispute as to the calculation, and following consideration by management and the Board of IIROC, the matter will be reported to the relevant members of the Canadian Securities Administrators (or any successor thereof).

## **Fees**

*Marketplace Member Fees:* We believe that the principle that IIROC operate on a cost-recovery basis is sound. Alpha's letter expresses a concern that IIROC's fee model for Marketplace Members will implement this principle in such a manner as to allow "differentiated fees for the same trade depending upon the marketplace where such a trade is executed". We understand the concern and agree that regulatory cost structures should not dictate decisions regarding trading venues. We would note that any proposal for UMIR regulation fees will be published for public comment and subject to the approval of the recognizing regulators. Alpha will therefore have the opportunity to review future fee model proposals and raise any concerns it might have in that context.

*TSX Technology Services Agreement:* The services provided to IIROC by TSX under the Technology Services Agreement will be provided on a cost plus 15% basis (as is currently the case). The draft agreement has been provided to the CSA in advance of the merger for their review, and the pricing arrangement is also subject to CSA review. The provision of the above-noted services on this basis should be distinguished from IIROC's provision of UMIR regulation services to TSX and its affiliated marketplaces. We do not agree that these arrangements result in "lower regulatory fees" for TSX. With respect to making the agreement public, we believe that CSA oversight of IIROC's technology arrangements with TSX should provide an adequate check as to the manner in which potential conflicts of interest are being addressed.

## **Regulation Services Agreements**

Each Regulation Services Agreement ("RSA") that IIROC enters into with a marketplace reflects the unique business and trading model of that marketplace. This information, as well as many of the terms of the RSA itself, may constitute confidential business information of the marketplace, or confidential regulatory information of IIROC relating to the regulatory program for that marketplace. IIROC will continue RS's current practice of posting on its website a summary of each RSA describing the market regulation services that RS provides to the marketplace. In addition, all RSAs are filed with the CSA and subject to their regulatory oversight.

**IN THE MATTER OF  
THE SECURITIES ACT, R.S.O. 1990, CHAPTER S.5,  
AS AMENDED (the ACT)**

**AND**

**IN THE MATTER OF  
THE COMMODITY FUTURES ACT, R.S.O. 1990, CHAPTER C.20,  
AS AMENDED (the "CFA")**

**AND**

**IN THE MATTER OF  
INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA (IIROC)**

**RECOGNITION ORDER  
(Subsection 21.1(1) of the Act and Subsection 16(1) of the CFA)**

The Investment Dealers Association of Canada (the IDA) has been recognized by the Alberta Securities Commission, British Columbia Securities Commission, Manitoba Securities Commission, Nova Scotia Securities Commission, Ontario Securities Commission, Saskatchewan Financial Services Commission, the Financial Services Regulation Division, Department of Government Services, Consumer & Commercial Affairs Branch (Newfoundland and Labrador) and the Autorité des marchés financiers (Québec), and has applied to the New Brunswick Securities Commission for recognition (together with the Securities Office, Consumer, Corporate and Insurance Services Division, Office of the Attorney General (Prince Edward Island), the Recognizing Regulators) as a self-regulatory organization or self-regulatory body pursuant to applicable legislation.

Market Regulation Services Inc. (RS) has been recognized by the Autorité des marchés financiers (Québec) and the Alberta Securities Commission, British Columbia Securities Commission, Manitoba Securities Commission and Ontario Securities Commission as a self-regulatory organization or self-regulatory body pursuant to applicable securities legislation.

The IDA and RS have agreed to combine their operations into IIROC.

IIROC will, among other things:

- a. regulate investment dealers, including alternative trading systems (ATs) and futures commission merchants (Dealer Members);
- b. if retained by an ATs pursuant to National Instrument 23-101 *Trading Rules*, regulate the ATs as a Marketplace Member (defined below) and the subscribers of the ATs;
- c. establish, administer and monitor its rules, policies and other similar instruments (Rules);
- d. enforce compliance with its Rules by Dealer Members and others subject to its jurisdiction;
- e. provide services to exchanges and quotation and trade reporting systems (QTRSs) (together with ATs, Marketplace Members) that choose to retain it as a regulation services provider, as that term is defined under National Instrument 21-101 *Marketplace Operation*;
- f. if retained by an exchange or QTRS, administer, monitor and/or enforce rules pursuant to a regulation services agreement between IIROC and that exchange or QTRS (RSA);
- g. conduct certain functions delegated to it by Recognizing Regulators, including registration functions; and
- h. perform investigation and enforcement functions on behalf of the IDA and RS for as long as each of the IDA and RS continues to be recognized by the Commission as a self-regulatory organization or a self-regulatory body.

On April 30, 2008, the Board of IIROC adopted the rules and policies of RS and the regulatory By-laws, Regulations, Forms and Policies of the IDA that were in force and effect at that time, subject to incidental conforming changes made to ensure consistency, and the Hearing Committees and Hearing Panels Rule as the Rules.

On April 30, 2008, the Board of IIROC adopted the market integrity notices issued by RS and all regulatory notices, bulletins, directives and guidance provided by the IDA that were in effect at that time.

IIROC has applied to the Ontario Securities Commission (Commission) and the other Recognizing Regulators for recognition as a self-regulatory organization pursuant to subsection 21.1(1) of the Act and subsection 16(1) of the CFA.

Based on the application filed on behalf of IIROC with the Recognizing Regulators with such changes as have been agreed to by the Recognizing Regulators, which includes the Rules, and subject to the representations and undertakings made by IIROC, the Commission is satisfied that recognizing IIROC will not be prejudicial to the public interest.

The Commission recognizes IIROC as a self-regulatory organization pursuant to subsection 21.1(1) of the Act and subsection 16(1) of the CFA on the terms and conditions set out in the appendix to this recognition order and the applicable provisions of the Memorandum of Understanding between the Recognizing Regulators, as amended from time to time (MOU).

Dated this 16th day of May, 2008, effective June 1, 2008.

“W. David Wilson”

“James E.A. Turner”

**APPENDIX A**  
**TERMS AND CONDITIONS**

**1. Recognition Criteria**

IIROC must continue to meet the criteria attached at Schedule 1.

**2. Notice and/or Approval of Changes**

- a. IIROC must promptly file in writing with Commission staff any material change to the information set out in the application letter dated December 21, 2007.
- b. Prior Commission approval is required for any changes to the following:
  - (i) the corporate governance structure of IIROC, as reflected in IIROC's By-law No. 1 (By-law No. 1);
  - (ii) letters patent of IIROC, and any supplementary letters patent; and
  - (iii) the assignment, transfer, delegation or sub-contracting of the performance of all or a substantial part of its regulatory functions or responsibilities as a self-regulatory organization.
- c. Prior Commission approval is required for material changes to the following:
  - (i) the fee model;
  - (ii) the functions IIROC performs;
  - (iii) IIROC's organizational structure;
  - (iv) the activities, responsibilities, and authority of the District Councils; and
  - (v) the Regulation Services Agreement between IIROC and any Marketplace Member.
- d. IIROC must not, without providing the Commission at least twelve months prior written notice and complying with any terms and conditions the Commission may impose in the public interest, complete any transaction that would result in IIROC:
  - (i) ceasing to perform its services;
  - (ii) discontinuing, suspending or winding-up all or a significant portion of its operations; or
  - (iii) disposing of all or substantially all of its assets.
- e. IIROC will:
  - (i) provide the Commission with three months prior written notice of any intended material change to its agreement with an information technology service provider regarding its critical technology systems; and
  - (ii) not terminate its agreement with an information technology service provider providing critical technology systems without providing the Commission prior written notice and complying with any terms and conditions the Commission may impose in the public interest.
- f. IIROC will comply with the process for filing and obtaining Commission approval for by-laws, Rules and any amendments to by-laws or Rules as outlined in Appendix A of the MOU, as amended from time to time.
- g. IIROC must advise the Commission in writing immediately upon being notified by any of the Recognizing Regulators that IIROC is not in compliance with one or more of the terms and conditions of recognition of IIROC in any jurisdiction or with the reporting requirements set out in the MOU.

**3. Governance**

- a. IIROC must:
- (i) ensure that at least 50% of its board of directors (Board), other than the President of IIROC, are independent directors as defined in By-law No. 1;
  - (ii) ensure that one of the directors represents an exchange or ATS that is not affiliated with a marketplace
    - (A) that retains IIROC, and
    - (B) has at least a 40% Market Share as defined in By-law No. 1 (Market Share); and
  - (iii) review the corporate governance structure, including the composition of the Board,
    - (A) within two years after the date of recognition and periodically thereafter, or
    - (B) at the request of the Commission,

to ensure that there is a proper balance between, and effective representation of, the public interest and the interests of marketplaces, dealers and other entities desiring access to the services provided by IIROC.
- b. IIROC must report to Commission staff in writing the results of the corporate governance review referred to in subparagraph (a)(iii) upon completion.
- c. The Code of Business Ethics and Conduct and the written policy about managing potential conflicts of interests of members of IIROC's Board must be filed with the Recognizing Regulators within one year after the date of this Recognition Order.

**4. Fees**

- a. IIROC must develop an integrated fee model and submit it for approval with the Commission within two years of the date of the recognition order.
- b. IIROC must report in writing on a quarterly basis for the first two years of operations on the status of the development of the fee model.

**5. Due Process**

Subject to applicable law and the Rules and by-laws of IIROC, before rendering a decision that affects the rights of a person or company in relation to membership, registration or enforcement matters, IIROC must provide that person or company an opportunity to be heard.

**6. Financial Viability**

- a. IIROC must operate on a not-for-profit basis.
- b. IIROC will immediately report to Commission staff if it cannot meet its expected expenses for the next quarter. In addition, IIROC must provide Commission staff with an action plan detailing the steps to be taken to remedy its financial condition.

**7. Integration of Functions**

- a. IIROC must report in writing within six months of the date of the recognition order its plan and timelines for the integration of functions relating to policy, surveillance, compliance, investigations, enforcement and membership.
- b. IIROC must report in writing on a quarterly basis for the first two years of operations on the status of the integration of its functions.

**8. Performance of Regulatory Functions**

- a. IIROC must set Rules governing its members and others subject to its jurisdiction.
- b. IIROC must administer and monitor compliance with the Rules and securities laws by members and others subject to its jurisdiction and enforce compliance with the Rules by Dealer Members, including ATs, and others subject to its jurisdiction. In addition, IIROC will provide notice to the Commission of any violations of securities legislation of which it becomes aware.
- c. If retained by an exchange or QTRS, IIROC must administer, monitor and/or enforce rules pursuant to an RSA.
- d. IIROC must, subject to applicable legislation, collect, use and disclose personal information only to the extent reasonably necessary to carry out its regulatory activities and mandate.
- e. IIROC must ensure that it is accessible for contact by the public for purposes relating to the performance of its functions as a self-regulatory organization/body.
- f. IIROC must publish concurrently in English and French each document issued to the public at large or generally to any class of members and must provide the document to Commission staff immediately upon publication.
- g. IIROC must adopt policies and procedures designed to ensure that confidential information about its operations or those of any Dealer Member, Marketplace Member or marketplace participant is maintained in confidence and not shared inappropriately with other persons, and must use all reasonable efforts to comply with these policies and procedures.

**9. Use of Fines and Settlements**

All fines collected by IIROC and all payments made under settlement agreements entered into with IIROC may be used only as follows:

- a. as approved by the Corporate Governance Committee,
  - (i) for the development of systems or other non-recurring capital expenditures that are necessary to address emerging regulatory issues resulting from changing market conditions and are directly related to protecting investors and the integrity of the capital markets;
  - (ii) for the education of securities market participants and members of the public about or research into investing, financial matters or the operation or regulation of securities markets;
  - (iii) to contribute to a non-profit, tax-exempt organization, the purposes of which include protection of investors, or those described in paragraph (a)(ii); or
- b. for reasonable costs associated with the administration of IIROC's hearing panels.

**10. Disciplinary Matters**

- a. Subject to paragraph (b), IIROC must
  - (i) promptly notify the Commission, the public and the news media of:
    - (A) the specifics relating to each disciplinary or settlement hearing once the hearing date is set, and
    - (B) the terms of each settlement and the disposition of each disciplinary action once the terms or disposition is determined; and
  - (ii) ensure that disciplinary and settlement hearings are open to the public and news media.
- b. Despite paragraph (a), IIROC may, on its own initiative or on request, order a closed-door hearing or prohibit the publication or release of information or documents if it determines that it is required for the protection of confidential matters. IIROC must establish written criteria for making a determination of confidentiality.

**11. Capacity and Integrity of Systems**

- a. IIROC must
  - (i) ensure that each of IIROC's critical systems, including its technology systems, has
    - (A) appropriate internal controls to ensure integrity and security of information; and
    - (B) has reasonable and sufficient capacity, and backup to enable IIROC to properly carry on its business; and
  - (ii) have controls to manage the risks associated with its operations, including an annual review of its contingency and business continuity plans.
- b. IIROC must promptly report to the Commission:
  - (i) any material failures in the controls described in paragraphs (a)(i) and (ii) above; and
  - (ii) any outage in IIROC's critical technology systems or backup systems,and provide a description of the actions taken or to be taken to rectify the situation.
- c. IIROC will on a reasonably frequent basis, and in any event, at least annually:
  - (i) make reasonable current and future capacity estimates for its critical systems;
  - (ii) conduct capacity stress tests to determine the ability of its critical systems to perform its regulation functions in an accurate, timely and efficient manner;
  - (iii) review and keep current the development and testing methodology of those systems; and
  - (iv) review the vulnerability of those systems to internal and external threats including physical hazards and natural disasters.
- d. IIROC must cause to be performed an independent review, in accordance with established audit procedures and standards, of its controls for ensuring that it is in compliance with paragraph (c) above, and conduct a review by its Board of the report containing the recommendations and conclusions of the independent review. This term and condition will not apply if:
  - (i) the information technology provider retained by IIROC is required, either by law or otherwise, to conduct an annual independent review; and
  - (ii) IIROC's Board obtains and reviews annually a copy of the independent review report of its information technology provider to ensure that it has controls in place to address the matters outlined in paragraph (c) above.
- e. Upon completion of the Board review, IIROC must provide the Commission with a copy of the report prepared under paragraph (d).
- f. IIROC shall periodically benchmark surveillance systems and services provided by its information technology providers against comparable systems and services available from other third party technology providers and provide the Commissions with a report summarizing the process undertaken and the conclusions reached.

**12. Ongoing Reporting Requirements**

- a. IIROC must provide the Commission with all information required in Schedule 2 of this Recognition Order.
- b. IIROC must provide Commission staff within 30 days of the commencement of each fiscal year with a copy of its financial budget for that year, together with the underlying assumptions, that has been approved by its Board.
- c. IIROC must file annual audited financial statements with Commission staff, accompanied by the report of an independent auditor, within 90 days after the end of each fiscal year.

- d. IIROC must file with Commission staff quarterly financial statements for each of the first three financial quarters within 60 days after the end of each financial quarter.
- e. IIROC must file its annual report with Commission staff upon completion.
- f. IIROC must annually self-assess IIROC's performance of its regulatory responsibilities and report thereon to the Board and the Commission staff, together with any recommendations for improvements. The annual self-assessment must contain information as specified by Commission staff from time to time and include the following information:
  - (i) an assessment of how IIROC is meeting its regulatory mandate, including an assessment against the recognition criteria and the terms and conditions of the Recognition Order;
  - (ii) an assessment against its strategic plan;
  - (iii) a description of trends seen as a result of compliance reviews conducted and complaints received and IIROC's plan to deal with any issues;
  - (iv) whether IIROC is meeting its benchmarks and if not, why not; and
  - (v) a description and update on significant projects undertaken by IIROC.IIROC must file the self-assessment with the Commission within 90 days of its fiscal year-end.
- g. IIROC must give the Commission staff notice as soon as practicable of new directors.
- h. IIROC must provide to the Commission, in addition to the information specifically required in this Recognition Order and the MOU, any information the Commission may reasonably require from time to time.

**SCHEDULE 1**

**CRITERIA FOR RECOGNITION**

**1. Governance**

- a. The governance structure and arrangements must ensure:
- (i) effective oversight of the entity;
  - (ii) fair, meaningful and diverse representation on the governing body (Board) and any committees of the Board, including a reasonable proportion of independent directors;
  - (iii) a proper balance among the interests of the different persons or companies subject to regulation by IIROC; and
  - (iv) each director or officer is a fit and proper person.

**2. Public Interest**

IIROC must regulate to serve the public interest in protecting investors and market integrity. It must articulate and ensure it meets a clear public interest mandate for its regulatory functions.

**3. Conflicts of Interest**

IIROC must effectively identify and manage conflicts of interest.

**4. Fees**

- a. All fees imposed by IIROC must be equitably allocated. Fees must not have the effect of creating unreasonable barriers to access.
- b. The process for setting fees must be fair and transparent.
- c. IIROC must operate on a cost-recovery basis.

**5. Access**

- a. IIROC must have reasonable written criteria that permit all persons or companies that satisfy the criteria to access IIROC's regulatory services.
- b. The access criteria and the process for obtaining access should be fair and transparent.

**6. Financial Viability**

IIROC must have sufficient financial resources for the proper performance of its functions and to meet its responsibilities.

**7. Capacity to Perform Regulatory Functions**

- a. IIROC must maintain its capacity to effectively and efficiently perform its regulatory functions, which include governing the conduct of persons or companies subject to its regulation and monitoring and enforcing applicable requirements.
- b. IIROC must maintain in each jurisdiction where it has an office
  - (i) sufficient financial, technological, human and other resources; and
  - (ii) appropriate organizational structures and adequate technological systemsto efficiently, effectively and in a timely manner perform its regulatory functions and responsibilities.

**8. Capacity and Integrity of Systems**

IIROC must maintain controls to ensure capacity, integrity requirements and security of its technology systems.

**9. Rules**

a. IIROC must establish and maintain Rules that:

- (i) are necessary or appropriate to govern and regulate all aspects of its functions and responsibilities as a self-regulatory entity;
- (ii) are designed to:
  - (A) ensure compliance with securities laws,
  - (B) prevent fraudulent and manipulative acts and practices,
  - (C) promote just and equitable principles of trade and the duty to act fairly, honestly and in good faith,
  - (D) foster cooperation and coordination with entities engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in, securities,
  - (E) foster fair, equitable and ethical business standards and practices,
  - (F) promote the protection of investors, and
  - (G) provide for appropriate discipline of those whose conduct it regulates;
- (iii) do not impose any burden or constraint on competition or innovation that is not necessary or appropriate in furtherance of IIROC's regulatory objectives;
- (iv) do not impose costs or restrictions on the activities of market participants that are disproportionate to the goals of the regulatory objectives sought to be realized; and
- (v) are not contrary to the public interest.

**10. Disciplinary Matters**

The process for discipline must be fair and transparent.

**11. Information Sharing and Regulatory Cooperation**

To assist other regulatory authorities in regulatory matters, IIROC must share information and cooperate with:

- (a) the Commission and any other securities regulatory authority, whether domestic or foreign;
- (b) exchanges;
- (c) self-regulatory organizations;
- (d) clearing agencies;
- (e) financial intelligence or law enforcement agencies or authorities; and
- (f) investor protection or compensation funds, whether domestic or foreign.

This assistance includes the collection and sharing of information and other forms of assistance for the purpose of market surveillance, investigations, enforcement litigation, investor protection and compensation and for any other regulatory purpose and is subject to applicable laws related to information sharing and protection of personal information.

**12. Other Criteria – Québec**

Constituting documents, by-laws and operating rules of IIROC should allow that the power to make decisions relating to the supervision of its activities in Québec will be exercised mainly by persons residing in Québec.

## SCHEDULE 2

### REPORTING REQUIREMENTS

IIROC will provide the information and reports outlined in this Schedule to the Recognizing Regulators of all jurisdictions in which a Member that is the subject of a report or notification is registered, unless otherwise specified.

#### 1. General

- a. Prompt notice of any material violations of securities legislation of which IIROC becomes aware in the ordinary course operation of its business.
- b. Prompt notice of actual or apparent misconduct or non-compliance by Members and their Approved Persons or Participants and others where investors, clients, creditors, Members, the Canadian Investor Protection Fund (CIPF) or IIROC may reasonably be expected to suffer serious damage as a consequence thereof, including but not limited to:
  - (i) where the solvency of a Member is at risk;
  - (ii) where fraud is present; or
  - (iii) where serious deficiencies in supervision or internal controls exist.

IIROC will include the party's name, the misconduct or deficiency, and its proposed response to ensure that the situations are resolved.

#### 2. Financial Compliance

- a. Prompt notification of situations that would reasonably be expected to raise concerns about a Member's continued viability, including but not limited to, capital deficiency and any condition which, in the opinion of IIROC, could give rise to payments being made out of CIPF, including any condition which, alone or together with other conditions, could, if appropriate corrective action is not taken, reasonably be expected to:
  - (i) inhibit the Member from promptly completing securities transactions, promptly segregating clients' securities as required or promptly discharging its responsibilities to clients, other Members or creditors;
  - (ii) result in material financial loss to the Member and its clients; or
  - (iii) result in material misstatement of the Member's financial statements.

IIROC will include the Member's name, the circumstances that gave rise to the situation, and its proposed response to ensure the identified situations are resolved.

- b. Prompt notice following the taking of any action with respect to a Member in financial difficulty, including a description of the circumstances of the failure or the cause of the financial difficulty, and a summary of the actions taken.
- c. At the beginning of each calendar year, an examination plan summarizing the scheduled financial compliance examinations for the upcoming year, set out on a quarterly basis and by IIROC office. The examination plan should explain the selection method used in determining the Members that are subject to an examination.
- d. On a quarterly basis, notification of any material changes to Financial Compliance's processes or scope of its work, including material changes to its risk assessment model. Such notification may be provided verbally at the quarterly conference calls of staff of IIROC and the Recognizing Regulators.

#### 3. Business Conduct Compliance

- a. At the beginning of each calendar year, an examination plan summarizing the scheduled business conduct compliance examinations for the upcoming year, set out on a quarterly basis. The examination plan should explain the selection method used in determining the Member's office(s) that are subject to an examination and the resources that will be dedicated to reviews of branch offices. The examination plan should also

include for head office examinations the name of the Dealer Member and the address, and for branch office examinations that IIROC reasonably expects to complete the name of the Dealer Member and the address.

- b. On a quarterly basis, a comparison of IIROC's Dealer Member business conduct compliance examination results to the examination plan by IIROC office. This comparison will include an explanation of any variances of actual results compared to the examination plan, and an action plan to ensure that the variances are resolved.
- c. On a quarterly basis, a progress report on all examinations that were in progress as of or started since the last report by each IIROC office. This report will include:
  - (i) the name of the Dealer Member;
  - (ii) whether the examination involved a head office or branch;
  - (iii) the start and expected completion dates of the field work;
  - (iv) the status of the examination;
  - (v) whether a report has been issued and, if so, the issue date;
  - (vi) a summary of the material deficiencies noted during the examination;
  - (vii) identification of any repeated deficiencies; and
  - (viii) the follow up actions planned by IIROC to ensure that the identified problems will be resolved.
- d. On a quarterly basis, notification of any material changes to Business Conduct Compliance's processes or scope of its work, including material changes to its risk assessment model. Such notification may be provided verbally at the quarterly conference calls of staff of IIROC and the Recognizing Regulators.

#### **4. Trade Desk Review**

- a. At the beginning of each calendar year, a plan summarizing the scheduled trade desk reviews for the upcoming year, set out on a quarterly basis, including the name of the Dealer Member. The plan should explain the selection method used in determining the Members that are subject to a trade desk review.
- b. On a quarterly basis, a comparison of IIROC's trade desk review results to the plan by IIROC office. This comparison will include an explanation of any variances of actual results compared to the plan, and an action plan to ensure that the variances are resolved.
- c. On a quarterly basis, a progress report on all trade desk reviews that were in progress as of or started since the last report by each IIROC office. This report will include:
  - (i) the name of the Dealer Member;
  - (ii) the start and expected completion dates of the field work;
  - (iii) the status of the review;
  - (iv) whether a report has been issued and, if so, the issue date;
  - (v) a summary of the material deficiencies noted during the review;
  - (vi) identification of any repeated deficiencies; and
  - (viii) the follow up actions planned by IIROC to ensure that the identified problems will be resolved.
- d. On a quarterly basis, notification of any material changes to trade desk review processes or scope. Such notification may be provided orally at the quarterly conference calls of staff of IIROC and the Recognizing Regulators.

**5. Membership**

- a. Immediate notice of the admission of a new Member. In each case, IIROC will include the Member's name and any terms and conditions that are imposed on the Member.
- b. Immediate notice of Members whose membership will be suspended or terminated. In each case, IIROC will include:
  - (i) The Member's name; and
  - (ii) The reasons for the proposed suspension or termination.
- c. Immediate notice of receipt from a Member its intention to resign.
- d. The notice required by this section may be provided by IIROC issuing a public notice containing the information, provided that such public notice will be issued immediately after the decision is made for admission, suspension and termination of membership and immediately after receipt of a notice of intention to resign, as the case maybe.

**6. Registration**

- a. A quarterly report summarizing any terms and conditions imposed on Approved Persons, containing:
  - (i) the name of the Dealer Member and Approved Person on whom the terms and conditions were imposed;
  - (ii) the date terms and conditions were imposed;
  - (iii) the terms and conditions; and
  - (iv) a description of the reasons for the decision to impose terms and conditions.
- b. A quarterly report summarizing all exemptions granted to individuals for proficiency requirements and full-time employment requirements under IIROC Rules and applicable securities legislation, and the reasons for granting the exemptions. This report should not include non-discretionary exemptions set out in IIROC Rules that were previously approved by the Recognizing Regulators.

**7. Marketplace Regulation Exemptions**

A quarterly report summarizing all exemptions granted during the period to marketplace participants pursuant to IIROC's Marketplace Regulation Rules, containing the information set out below:

- a. the name of the marketplace participant;
- b. type of exemption;
- c. date of the exemption; and
- d. a description of IIROC staff's reason for the decision to approve the exemption.

**8. Investigations and Enforcement**

- a. *Ad Hoc Reporting*
  - (i) Information concerning all investigations which led to disciplinary or settlement proceedings, to be sent promptly after the disposition of the disciplinary or settlement proceedings and containing the following information:
    - (A) any discipline imposed,
    - (B) the terms of any settlement proposal accepted, and
    - (C) any written decisions and reasons.

b. *Monthly Reporting*

- (i) A summary of all new investigations by IIROC offices, which will:
  - (A) indicate the date an investigation started,
  - (B) indicate whether the investigation concerns primarily Member Regulation matters, Marketplace Regulation matters or has significant elements of both,
  - (C) include name of the complainant for complaints that resulted in investigations,
  - (D) indicate whether the file was referred by another department of IIROC and the name of the department,
  - (E) identify:
    - a. for Member Regulation cases, the Dealer Member and relevant Approved Person(s), or
    - b. for Marketplace Regulation cases, the marketplace participant,
  - (F) summarize the misconduct alleged, and highlight any securities act violations of which IIROC becomes aware in the course of the investigation, and
  - (G) identify the name(s) of IIROC staff assigned to the investigation.
- (ii) A summary of all closed investigations which did not lead to disciplinary or settlement proceedings by IIROC offices, which will:
  - (A) indicate the dates an investigation was started and closed,
  - (B) include detailed information concerning the investigation,
  - (C) identify:
    - a. for Member Regulation cases, the Dealer Member and relevant Approved Person(s), or
    - b. for Marketplace Regulation cases, the marketplace participant, and
  - (D) include a copy of the final investigation report and recommendations.

c. *Quarterly Reporting*

- (i) A quarterly report summarizing client complaints based upon ComSet data, including:
  - (A) a graphical report setting out the number of open client complaints and the relative age of the client complaints as of each quarter and on an annual basis, and
  - (B) the relative age of closed client complaints, closed in the quarter and on an annualized basis.
- (ii) Summary statistics by IIROC offices regarding the current caseload for each of complaints, investigations and prosecutions, separated between Member and Marketplace Regulation cases and within Marketplace Regulation cases, separately for each exchange, quotation and trade reporting system and alternative trading system, including:
  - (A) the number of files outstanding at the beginning and at the end of the period, by operating department,
  - (B) the number of new files opened during the period, by operating department,

- (C) the number of files transferred between sections during the period, by operating department, and
  - (D) the number of files referred and closed during the period.
- (iii) An ageing report by IROC offices as at quarter end for files that remain open at the end of the quarter, which identifies the length of time a file has been open in each operating department.

*d. Annual Reporting*

- (i) A summary of all complaints and the disposition thereof, together with an analysis of any emerging problems or trends;
- (ii) A summary of all investigations and the disposition thereof, together with an analysis of any emerging problems or trends;
- (iii) A summary of all prosecutions and the disposition thereof, together with an analysis of any emerging problems or trends;
- (iv) an analysis of market surveillance files that includes a discussion of any emerging problems or trends;
- (v) enforcement-related policy changes;
- (vi) enforcement-related functional and administrative changes; and
- (vii) ongoing initiatives which are enforcement-related, but not case specific.

**MEMORANDUM OF UNDERSTANDING REGARDING  
OVERSIGHT OF INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA AMONG:**

**BRITISH COLUMBIA SECURITIES COMMISSION  
ALBERTA SECURITIES COMMISSION  
SASKATCHEWAN FINANCIAL SERVICES COMMISSION  
MANITOBA SECURITIES COMMISSION  
ONTARIO SECURITIES COMMISSION  
AUTORITÉ DES MARCHÉS FINANCIERS  
NEWFOUNDLAND AND LABRADOR, SECURITIES DIVISION,  
DEPARTMENT OF GOVERNMENT SERVICES AND LANDS  
NOVA SCOTIA SECURITIES COMMISSION  
NEW BRUNSWICK SECURITIES COMMISSION**

(each a Recognizing Regulator, collectively Parties)

The Parties agree as follows:

**1. Underlying Principles**

*a. Recognition*

Investment Industry Regulatory Organization of Canada (IIROC) is recognized as a self-regulatory organization under applicable legislation by each of the Recognizing Regulators and is a regulation services provider pursuant to National Instrument 23-101 *Trading Rules*.

*b. Oversight Program*

To ensure effective oversight of IIROC's performance of its self-regulatory activities and regulation services, the Parties to this Memorandum of Understanding (MOU) have developed an oversight program (the Oversight Program) which includes:

- (i) reviewing information filed by IIROC, as set out in section 4;
- (ii) reviewing and approving new and amended rules, policies and other similar instruments (Rules) and by-laws of IIROC, as set out in Appendix "A"; and
- (iii) performing periodic reviews of IIROC's self-regulatory activities and regulation services.

The purpose of the Oversight Program is to ensure that IIROC is acting in accordance with its public interest mandate, specifically by complying with its terms and conditions of recognition.

*c. Previous Memoranda of Understanding*

This MOU supersedes the letter agreement dated June 5, 2001 between the Investment Dealers Association of Canada (IDA) and the recognizing regulators of the IDA regarding the coordination of oversight of the IDA by the Canadian Securities Administrators and the Memorandum of Understanding Regarding Oversight of Market Regulation Services Inc. (RS) dated May 1, 2002 among the recognizing regulators of RS.

**2. Definitions**

"Approved Person" has the meaning attributed to that term in IIROC's Rules, as amended from time to time.

"Member" has the meaning attributed to that term in IIROC's By-law No. 1, as amended from time to time.

"Principal Regulator" means the Recognizing Regulator that is designated as such from time to time by consensus of all the Recognizing Regulators.

**3. General Provisions**

*a. Oversight Committee*

An oversight committee will be established (the Oversight Committee) which will act as a forum and venue for the discussion of issues, concerns and proposals related to the oversight of IIROC.

The Oversight Committee will include staff representatives from each of the Recognizing Regulators.

The Oversight Committee will provide to the CSA Chairs an annual written report that will include a summary of all oversight activities during the previous period.

*b. Staff Contact*

The Principal Regulator will provide IIROC with key staff contacts in each jurisdiction for the purposes of matters arising under this MOU or relating to oversight in general.

*c. Status Meetings*

The Principal Regulator will organize quarterly conference calls and an annual in-person meeting of the Oversight Committee and IIROC staff. The purpose is to discuss matters relating to the oversight of IIROC, issues relating to the regulation of IIROC's Members and other matters that are of interest to the Recognizing Regulators and IIROC. The Principal Regulator is also responsible for taking minutes of these calls and in-person meetings.

**4. Review of Information Filed**

Any comments of the staff of the Recognizing Regulators on information filed by IIROC will be sent to the Principal Regulator. The Principal Regulator will request that IIROC respond to comments raised by the Recognizing Regulators and forward any response to the Recognizing Regulators.

**5. Review of By-laws and Rules**

The Recognizing Regulators have developed a Joint Rule Review Protocol (the Protocol) for coordinating the review and approval of IIROC by-laws and Rules, as sets out in Appendix "A".

**6. Oversight Reviews**

*a. Coordination of Oversight Reviews*

- (i) The Recognizing Regulators will use their best efforts to carry out reviews of IIROC offices at least once every three years. A Recognizing Regulator may choose to participate in the review of an IIROC office depending on the functions carried out in that office, or may choose to rely on another Recognizing Regulator for the review of an IIROC office. In cases where a Recognizing Regulator chooses not to review the IIROC office in its jurisdiction, the other Recognizing Regulators may conduct a review of that IIROC office. Those Recognizing Regulators who participate in a review are considered to be "Reviewing Regulators" for the purpose of oversight reviews.
- (ii) The Reviewing Regulators agree to coordinate their reviews of IIROC's offices by conducting their reviews at the same time and evaluating IIROC using a uniform review program and uniform performance benchmarks.
- (iii) The Principal Regulator will develop a review program in consultation with the Reviewing Regulators.
- (iv) For each IIROC office, a Reviewing Regulator will be designated as the Responsible Regulator who has overall responsibility for the review of that office. In particular, the Responsible Regulator will ensure that the review is appropriately staffed, will draft the review report for that office taking into account findings and comments of the Reviewing Regulators of that office, and will report on the status and results of the review of that office.
- (v) The Principal Regulator will also arrange periodic conference calls of the Reviewing Regulators during the course of a review, the purpose of which is to discuss the findings at different IIROC offices and to ensure consistent recommendations for similar findings.

*b. Review of Draft Reports and Issuance of Final Reports and Follow-Up Plans*

At the conclusion of a review, staff of the Principal Regulator and the Reviewing Regulators will use their best efforts to follow the procedures set out below, taking into account language translation needs, when applicable:

- (i) Each Responsible Regulator will provide to all Reviewing Regulators a draft report on the results of the review of its IIROC office. The Reviewing Regulators will agree in advance on the date on which the draft reports should be completed.
- (ii) The Principal Regulator will review the draft reports for consistency of findings and recommendations and provide any needed comments to the Responsible Regulators within 10 business days of receipt of all the draft reports.
- (iii) The Responsible Regulators will review the comments and make appropriate revisions to their reports, taking into consideration comments from the relevant Reviewing Regulators, and forward their revised draft reports to the Principal Regulator within 10 business days of receipt of the Principal Regulator's comments.
- (iv) Within 10 business days of receipt of all the revised draft reports, the Principal Regulator will forward the draft reports on each office to IIROC for it to confirm factual accuracy.
- (v) IIROC will review the draft reports for factual accuracy and respond to all the Reviewing Regulators with comments within 15 business days of receipt of the draft reports.
- (vi) The Responsible Regulators will consider IIROC's comments and revise their reports as necessary, and will forward a copy of their final reports to the Principal Regulator within 20 business days of receiving IIROC's comments.
- (vii) The Principal Regulator will combine the final reports on each IIROC office into a consolidated report and prepare an executive summary to the consolidated report. The Principal Regulator will forward the consolidated report to the Reviewing Regulators for their review within 20 business days of receipt of all the final reports.
- (viii) The Reviewing Regulators will provide to the Principal Regulator any comments on the consolidated report within 10 business days of receipt of the consolidated report.
- (ix) The Principal Regulator will review the comments, make any appropriate changes to the consolidated report, and forward the consolidated report to IIROC for a formal response with copies to the Reviewing Regulators, within 10 business days of receipt of the Reviewing Regulators' comments.
- (x) IIROC will use its best efforts to respond to the consolidated report within 20 business days of receipt of the report. A copy of its response will be sent to all the Reviewing Regulators.
- (xi) The Responsible Regulator will review IIROC's response, develop a follow-up plan for the applicable IIROC office, and forward its follow-up plan to the Principal Regulator, within 20 business days of receipt of IIROC's response.
- (xii) The Principal Regulator will provide the final consolidated report, together with IIROC's response and the follow-up plan for each IIROC office, to the CSA Chairs and IIROC once each Reviewing Regulator has obtained the necessary internal approval.

c. *Interim Reviews*

Although the Principal Regulator will co-ordinate periodic reviews as described above, each Recognizing Regulator retains the ability to perform a review of IIROC to deal with significant and/or local issues that require immediate attention and that would be best dealt with through a review of an IIROC office. The Recognizing Regulator desiring to perform an interim review of IIROC will provide prior notice of the interim review to the Oversight Committee.

**7. Appendix**

Appendix "A" to this MOU is an integral part of this MOU.

**8. Amendments to and Withdrawal from this MOU**

This MOU may be amended from time to time as mutually agreed upon by the Recognizing Regulators. Any amendments must be in writing and approved by the duly authorized representatives of each Recognizing Regulator.

Each Recognizing Regulator can, at any time, withdraw from this MOU on at least 90 days written notice to the Principal Regulator and to each Recognizing Regulator.

**9. Effective Date**

This MOU comes into effect on June 1, 2008 in Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia and Saskatchewan, and on September 1, 2008 in Ontario. In Quebec, this MOU comes into effect on the date it is signed by the AMF and by the Minister responsible for Canadian Intergovernmental Affairs or by a person authorized by the Minister.

British Columbia Securities Commission

Per: \_\_\_\_\_

Title: \_\_\_\_\_

Alberta Securities Commission

Per: \_\_\_\_\_

Title: \_\_\_\_\_

Saskatchewan Financial Services Commission

Per: \_\_\_\_\_

Title: \_\_\_\_\_

Manitoba Securities Commission

Per: \_\_\_\_\_

Title: \_\_\_\_\_

Ontario Securities Commission

Per: \_\_\_\_\_

Title: \_\_\_\_\_

Autorité des marchés financiers

Per: \_\_\_\_\_

Title: \_\_\_\_\_

Minister Responsible for Canadian  
Intergovernmental Affairs

Per: \_\_\_\_\_

Title: \_\_\_\_\_

Newfoundland and Labrador, Securities Division,  
Department of Government Services and Lands

Per: \_\_\_\_\_

Title: \_\_\_\_\_

Nova Scotia Securities Commission

Per: \_\_\_\_\_

Title: \_\_\_\_\_

New Brunswick Securities Commission

Per: \_\_\_\_\_

Title: \_\_\_\_\_

APPENDIX A

JOINT RULE REVIEW PROTOCOL FOR IIROC

1. **Scope and Purpose**

- a. "Rules" includes any new rule or amendment to a rule, policy or other similar instrument.
- b. Any new or amended by-law will follow the process for rule review and approval set out in this Protocol.
- c. The Recognizing Regulators have entered into this Protocol to establish uniform procedures for their review and approval of Rules proposed by IIROC.

2. **Classification of Rules**

a. *Classification of Rules by IIROC*

IIROC will classify each proposed Rule as a "Housekeeping" Rule or a "Public Comment" Rule and will provide notice of classification in the materials filed with each Recognizing Regulator.

b. *Criteria for Classification of Rules*

- (i) A "Housekeeping" Rule is a proposed Rule that has no material impact on investors, issuers, members, registrants or the capital markets in any province or territory of Canada and that:
  - (A) corrects spelling, punctuation, typographical or grammatical mistakes or inaccurate cross-referencing;
  - (B) makes stylistic or formatting changes to headings or paragraph numbers;
  - (C) makes other necessary changes of an editorial nature (such as standardization of terminology);
  - (D) establishes or changes a due, fee or other charge imposed by IIROC pursuant to a Rule or fee model that has been previously approved by the Recognizing Regulators;
  - (E) changes the routine internal processes, practice, or administration of IIROC; or
  - (F) is reasonably necessary to conform IIROC's Rules to applicable securities legislation, statutory or legal requirements; and
- (ii) A "Public Comment" Rule is any proposed Rule that is not a Housekeeping Rule.

c. *Disagreements Regarding Classification*

- (i) If staff of a Recognizing Regulator believe that a proposed Rule is incorrectly classified as a Housekeeping Rule, they will, within 10 days of the date of filing by IIROC, inform staff of the Principal Regulator of their intention to disagree with the classification, with an analysis of their reasons for disagreeing with the classification. Within 5 days of receiving a notice of disagreement from staff of one of the Recognizing Regulators, staff of the Principal Regulator will arrange a conference call among staff of the Recognizing Regulators to discuss the disagreement with the classification. If the disagreement still exists after the conference call, staff of the Principal Regulator will promptly notify IIROC.
- (ii) If a notice of disagreement is sent to IIROC under paragraph 2(c)(i), IIROC will reclassify the proposed Rule as a Public Comment Rule.

3. **Required Materials**

- a. IIROC will file the information required under this section concurrently in both English and French, accompanied with a translation certificate, with the applicable Recognizing Regulators.
- b. IIROC will file the following information with each Housekeeping Rule:

- (i) a cover letter that indicates the classification of the Rule and the rationale for the classification;
  - (ii) the text of the proposed Rule, and, where applicable, a blacklined version of the Rule indicating changes to an existing rule; and
  - (iii) a notice for publication that contains the following:
    - (A) a brief description of the Rule,
    - (B) the reasons for the Housekeeping classification,
    - (C) the date that the Rule was approved by the IIROC Board and the Board Resolution, and
    - (D) the anticipated effective date of the Rule.
- c. IIROC will file the following information with each Public Comment Rule:
- (i) a cover letter that indicates the classification of the Rule, how IIROC has taken the public interest into account when developing the Rule and why the Rule is in the public interest;
  - (ii) the text of the proposed Rule, and, where applicable, a blacklined version of the Rule indicating changes to an existing rule; and
  - (iii) a notice of publication including:
    - (A) a concise statement, together with supporting analysis, of the nature, purpose and effect of the proposed Rule;
    - (B) the possible effects of the proposed Rule on market structure, Members, non-Members, competition and the costs of compliance;
    - (C) a description of the Rule and the Rule-making process, including a description of the context in which the proposed Rule was developed, the date that the Rule was approved by the IIROC Board and the Board Resolution, the process followed, the issues considered, the consultation process undertaken and alternative approaches considered and the reasons for rejecting those alternatives;
    - (D) where the proposed Rule requires technological systems changes to be made by IIROC, Members or other market participants, a description of the implications of the proposed Rule and, where possible, a discussion of material implementation issues and plans;
    - (E) where relevant, a reference to other jurisdictions including an indication as to whether another regulator in Canada, the United States or another jurisdiction has a comparable rule or has made or is contemplating making a comparable rule and, if applicable, a comparison of the proposed Rule to the rule of the other jurisdiction;
    - (F) the anticipated date on which IIROC proposes that the proposed Rule be effective;
    - (G) a statement that the IIROC Board has determined that the proposed Rule is not contrary to the public interest; and
    - (H) a request for public comment together with details on how to submit comments with the comment period deadline, and a statement that IIROC would make available to the public all comments received during the comment period.

#### **4. Review Criteria**

Without limiting the discretion of the Recognizing Regulators, the Recognizing Regulators agree that the following are factors that should be considered by the Recognizing Regulators in reviewing IIROC Rule proposals:

- a. whether IIROC followed its established internal governance practices in approving the proposed Rule;

- b. whether IIROC followed the requirements of this Protocol and has provided sufficient analysis of the nature, purpose and effect of a proposed Rule;
- c. whether IIROC has considered consequential amendments; and
- d. whether the proposed Rule conflicts with applicable laws or the terms and conditions of a Recognizing Regulator's recognition order.

**5. Rule Review and Approval Process – Housekeeping Rules**

- a. IIROC will file each proposed Housekeeping Rule and the materials described in subsection 3(b) of this Protocol with each Recognizing Regulator.
- b. Upon receipt of IIROC's notice of publication, staff of the Principal Regulator will immediately send confirmation of receipt of the proposed Housekeeping Rule to IIROC, with copies to the other Recognizing Regulators.
- c. If none of the Recognizing Regulators objects to the classification of the proposed Rule as a Housekeeping Rule within the time limit set out in paragraph 2(c)(1), the proposed Rule will be deemed to be approved and will be effective on the date designated by IIROC in its filing.

**6. Rule Review and Approval Process – Public Comment Rules**

- a. IIROC will file each proposed Public Comment Rule and the materials described in subsection 3(c) of this Protocol with each Recognizing Regulator.
- b. Upon receipt of IIROC's notice of publication, staff of the Principal Regulator will immediately send confirmation of receipt of the proposed Public Comment Rule to IIROC, with copies to the other Recognizing Regulators.
- c. As soon as practicable and in any event within 14 days of receipt of IIROC's notice of publication, the Principal Regulator will, and the other Recognizing Regulators may, publish for a 30-day comment period (commencing on the date the proposed Public Comment Rule appears in the bulletin or on the website of the Principal Regulator) in its bulletin or on its website the text of the proposed Public Comment Rule and the notice of publication filed by IIROC. The Principal Regulator and the other Recognizing Regulators that publish the Rule will coordinate the publication date.
- d. During the 30-day comment period, staff of each of the Recognizing Regulators will provide significant comments to staff of the Principal Regulator in writing, with copies to the other Recognizing Regulators. If staff of the Principal Regulator do not receive any such comments within the 30-day period, the other Recognizing Regulators will be deemed to not have any comments.
- e. Promptly following the 30-day comment period, IIROC will confirm with staff of the Principal Regulator whether any public comments were received and, if so, IIROC will forward the public comments to each of the Recognizing Regulators.
- f. If comments from staff of the Recognizing Regulators and the public comments do not raise any significant issues, staff of the Recognizing Regulators will proceed immediately to the approval of the proposed Rule following the steps outlined in subparagraphs (j)-(n) below.
- g. If comments from staff of the Recognizing Regulators or the public comments received raise significant issues, staff of the Principal Regulator will send IIROC written notice, within 7 days of the end of the 30-day comment period, that the Public Comment Rule will be subject to a full review as set out in subparagraph 6(h) below.
- h. For a full review of a Public Comment Rule, the Recognizing Regulators will use best efforts to adhere to the following process:
  - (i) Staff of the Principal Regulator will prepare and deliver to staff of the other Recognizing Regulators, within 7 days of receiving from IIROC confirmation that no public comments were received or a summary of public comments and IIROC's response to the public comments, a draft comment letter that incorporates the comments raised by staff of the Recognizing Regulators;

- (ii) within 7 days of receipt, staff of each of the Recognizing Regulators will provide comments on the draft comment letter prepared by staff of the Principal Regulator, with copies to the other Recognizing Regulators; if staff of the Principal Regulator does not receive any comments within the 7-day period, the other Recognizing Regulators will be deemed not to have any comments;
  - (iii) Staff of the Principal Regulator will consolidate all comments received, and may identify different views from staff of the Recognizing Regulators; in the event that comments received conflict, staff of the Recognizing Regulators will try to reach an agreement to deal with the conflict; if the conflict cannot be resolved, the Principal Regulator will use its best efforts to arrange, within 14 days of becoming aware of the conflict, for the Chair or another senior executive of each of the Recognizing Regulators to discuss the issues and attempt to establish a consensus;
  - (iv) within 3 days of the other Recognizing Regulators' response (or deemed response) or of the resolution of conflicts by the Chairs or senior executives of the Recognizing Regulators, staff of the Principal Regulator will send the comment letter to IIROC, with a copy to each of the other Recognizing Regulators;
  - (v) within 14 days of receipt, IIROC will respond in writing to the comment letter sent by staff of the Principal Regulator, with a copy to staff of each of the other Recognizing Regulators; and
  - (vi) each of the other Recognizing Regulators will provide material comments to the Principal Regulator in writing within 10 days of IIROC's response, and the Principal Regulator will provide its comments to the other Recognizing Regulators within the same period; if the Principal Regulator does not receive any comments within the 10-day period, the other Recognizing Regulators will be deemed not to have any comments.
- i. IIROC and the Recognizing Regulators will discuss and attempt to resolve the concerns raised by any of the Recognizing Regulators within 30 days of receiving comments from staff of the other Recognizing Regulators regarding IIROC's response referred to in subparagraph 6(h)(V), but if the concerns are not resolved to the satisfaction of all Recognizing Regulators, review of the proposed Rule will be escalated to be discussed among the Chairs or other senior executives of the Recognizing Regulators as described below:
    - (i) the Principal Regulator will use its best efforts to schedule a meeting of the chairs or other senior executives of the Recognizing Regulators within 14 days of the end of the 30-day period noted in paragraph 6(i) above; and
    - (ii) the chairs or other senior executives of the Recognizing Regulators will discuss the issues and attempt to establish a consensus among the Recognizing Regulators. If, after the consultations, the Chairs or other senior executives of the Recognizing Regulators are unable to agree on the appropriate outcome for the proposed Rule, IIROC will not be able to adopt the Rule.
  - j. Staff of the Principal Regulator will prepare documentation for approval of the proposed Rule by the Principal Regulator within 14 days of resolving comments under paragraph 6(i).
  - k. After a proposed rule is approved by the Principal Regulator, staff of the Principal Regulator will promptly circulate to the other Recognizing Regulators the documentation.
  - l. Staff of the other Recognizing Regulators will seek the necessary approval within 30 days of receipt of the documentation from the Principal Regulator, or such later time as is mutually agreed by staff of the Recognizing Regulators.
  - m. Staff of each Recognizing Regulator will inform staff of the Principal Regulator in writing of the decision concerning the proposed Rule immediately following the decision.
  - n. Staff of the Principal Regulator will communicate in writing the approval of a proposed Rule to IIROC promptly upon receipt of notification from all of the other Recognizing Regulators of their decision.

**7. Immediate Implementation**

- a. If IIROC reasonably believes that there is an urgent need to implement a proposed Rule because of a substantial risk of material harm to investors, Members, marketplace participants or the Canadian Investor Protection Fund, IIROC may make the proposed Rule effective immediately upon approval by IIROC's Board, provided that:

- (i) IIROC provides each Recognizing Regulator with written notice of its intention to rely upon this procedure at least 10 days before the proposed Rule is considered for approval by IIROC's Board; and
- (ii) IIROC's written notice includes:
  - (A) the date on which IIROC intends the proposed Rule to be effective, and
  - (B) an analysis in support of the need for immediate implementation of the proposed Rule.
- b. If a Recognizing Regulator does not agree that immediate implementation is necessary, that Recognizing Regulator will, within 5 days after IIROC provides notice to the Principal Regulator, advise the Principal Regulator in writing that it disagrees and provide the reasons for its disagreement, with copies to the other Recognizing Regulators. Staff of the Principal Regulator will promptly notify IIROC of the disagreement.
- c. IIROC and the Recognizing Regulators will discuss and attempt to resolve the concerns raised by the Recognizing Regulators on a timely basis, but if the concerns are not resolved to the satisfaction of all Recognizing Regulators, the proposed Rule cannot be immediately implemented.
- d. If no notice is received by IIROC by the end of the tenth day following the day on which IIROC provided the notification to the Principal Regulator, the Recognizing Regulators will be deemed to have approved the immediate implementation of the proposed Rule.
- e. Proposed Rules approved (or deemed to have been approved) for immediate implementation will be effective on the later of:
  - (i) the date on which each Recognizing Regulator has approved (or is deemed to have approved) the immediate implementation; and
  - (ii) the date designated by IIROC in its written notice to the Principal Regulator.
- f. A Rule that is implemented immediately will be published (if it is a Public Comment Rule), reviewed, and approved in accordance with this Protocol.
- g. Where the Recognizing Regulators subsequently disapprove a Rule that was implemented immediately, IIROC will promptly repeal the Rule.

**8. Effective Date of Rules**

- a. Public Comment Rules (other than Rules implemented under Section 7 (Immediate Implementation) of this Protocol) will be effective on the later of:
  - (i) the date of publication of notice of approval, and
  - (ii) the date designated by IIROC under paragraph 3(c)(III)(6) of this Protocol.
- b. Housekeeping Rules will be effective on the date designated by IIROC under paragraph 3(b)(III)(3) of this Protocol.

**9. Revisions and Republication**

- a. If, subsequent to its publication for comment, IIROC revises a Public Comment Rule in a manner that results in a material change in the proposed Rule's substance and/or effect, the Principal Regulator will, in consultation with IIROC and staff of the other Recognizing Regulators determine whether or not the revised Rule should be published for an additional 30-day comment period.
- b. If a Public Comment Rule is republished under subsection (a), the request for comments will include a blacklined version marked to the original published version, the date of Board approval (if different from the original published version), IIROC's summary of comments submitted and responses in respect of the previous request for comments, together with an explanation of the revisions to the proposed Rule and the supporting rationale for the revisions.

**10. Publication of Notice of Approval**

- a. The Principal Regulator will prepare a notice of approval of each Public Comment Rule and publish the notice, together with the summary of the proposed Rule prepared by IIROC and IIROC's summary of comments submitted and responses, if applicable, and will coordinate with staff of the other Recognizing Regulators.
- b. For any Housekeeping Rule, the Principal Regulator will publish the text of the proposed Rule and the notice for publication referred to in subparagraph 3(b)(III).
- c. Recognizing Regulators other than the Principal Regulator may publish any notice of approval.

**11. Review of Protocol**

IIROC and staff of the Recognizing Regulators will, once every three years, conduct a joint review of the operation of this Protocol in order to identify issues that have arisen since the last review relating to compliance with this Protocol, the continuing appropriateness of the timelines and other requirements set out in this Protocol, and necessary or desirable amendments to this Protocol to address identified issues.

**12. Waiving or Varying of the Rule Review Protocol**

- a. IIROC may file a written request with the Principal Regulator, with copies to the other Recognizing Regulators, to waive or vary any part of this Protocol.
- b. Within 7 days of receipt of IIROC's request, a Recognizing Regulator who objects to the granting of the waiver or variation will notify the Principal Regulator of its objection, together with its reason(s) for the objection. If the Principal Regulator does not receive any notices of objection, the other Recognizing Regulators are deemed to not object to the waiver or variation.
- c. The Principal Regulator will provide to IIROC on the eighth day of receipt of IIROC's request either:
  - (i) written notice that a Recognizing Regulator objects to granting the waiver or variation; or
  - (ii) written notice that the waiver or variation has been granted by the Principal Regulator on behalf of all the Recognizing Regulators.
- d. A waiver or variation may be specific or general and may be made for a time or for all time as mutually agreed by staff of the Recognizing Regulators.

**BY-LAW NO. 1**  
**being a General By-law of**  
**INVESTMENT INDUSTRY REGULATORY ORGANIZATION**  
**OF CANADA**  
**ORGANISME CANADIEN DE RÉGLEMENTATION DU COMMERCE DES VALEURS MOBILIÈRES**  
(hereinafter referred to as the "**Corporation**")

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**ARTICLE 1  
INTERPRETATION**

**Section 1.1 Definitions**

In this By-law, unless the context otherwise specifies or requires:

“**Act**” means *the Canada Corporations Act*, R.S.C. 1970, c. C-32 as from time to time amended and every statute that may be substituted therefor and, in the case of such substitution, any references in the By-laws to provisions of the Act shall be read as references to the substituted provisions therefor in the new statute or statutes.

“**Associate**”, where used to indicate a relationship with any person, means:

- (a) any corporation of which such person beneficially owns, directly or indirectly, voting securities carrying more than ten percent (10%) of the voting rights attached to all voting securities of the corporation for the time being outstanding;
- (b) a partner of that person;
- (c) any trust or estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar capacity;
- (d) any relative of that person who resides in the same home as that person;
- (e) any person who resides in the same home as the person and to whom that person is married or with whom that person is living in a conjugal relationship outside of marriage; or
- (f) any relative of a person mentioned in clause (e) above, who has the same home as that person.

“**By-laws**” means this By-law and any other by-law of the Corporation from time to time in force and effect.

“**Board**” means the Board of Directors of the Corporation.

“**CDS**” means Canadian Depository for Securities Limited.

“**Chair**” means the Director elected by the Board to act as its chair.

“**CIPF**” means the Canadian Investor Protection Fund.

“**Corporation**” means Investment Industry Regulatory Organization of Canada / Organisme Canadien de Réglementation du Commerce des Valeurs Mobilières.

“**Dealer Director**” means a Director, other than a Marketplace Director, who is a partner, director, officer, employee or a person acting in a similar capacity of, or the holder of a Significant Interest in:

- (a) a Dealer Member;
- (b) an Associate of a Dealer Member; or
- (c) an affiliated entity of a Dealer Member.

“**Dealer Member**” means a Member that is an investment dealer in accordance with securities legislation.

“**Director**” means a member of the Board.

“**District**” means a geographic area in Canada designated as a district of the Corporation by the Board, from time to time.

“**District Council**” means each of those Councils created in accordance with Article 10.

“**Indemnified Party**” means each Protected Party and any other person who has undertaken or is about to undertake any liability on behalf of the Corporation, or any entity controlled by it, which the Corporation determines to indemnify in respect of such liability and their respective heirs, executors, administrators, and estates and effects, respectively.

**“Independent Director”** means a Director who is not:

- (a) an officer (other than the Chair or any Vice-Chair) or an employee of the Corporation;
- (b) a person who qualifies as a Dealer Director or a Marketplace Director; or
- (c) an Associate of a partner, director, officer, employee or person acting in a similar capacity of, or the holder of a Significant Interest in, a Dealer Member or Marketplace Member.

**“Industry Agreement”** means the agreement dated December 14, 2001 made between the Corporation and the CIPF, as the same may be amended or replaced from time to time.

**“Letters Patent”** means the letters patent of the Corporation and includes any supplementary letters patent.

**“Marketplace”** means a recognized exchange, a recognized quotation and trade reporting system or an alternative trading system, as each is defined in National Instrument 21-101.

**“Marketplace Director”** means a Director, other than a Dealer Director, who is a partner, director, officer, employee or person acting in a similar capacity of, or the holder of a Significant Interest in:

- (a) a Marketplace Member;
- (b) an Associate of a Marketplace Member; or
- (c) an affiliated entity of a Marketplace Member.

**“Marketplace Member”** means a Member that is a Marketplace.

**“Market Share”** means the proportion of trading activity of any particular Marketplace of the trading activity of all Marketplaces with respect to exchange-traded securities other than derivatives and foreign exchange-traded securities other than derivatives calculated as to one-third by trading value, one-third by trading volume and one-third by number of trades, all in the immediately preceding calendar year calculated in accordance with guidelines approved by the Board. In the event of a dispute as to the calculation, and following consideration by management and the Board of the Corporation, the matter will be reported to the relevant members of the Canadian Securities Administrators (or any successor thereof).

**“Member”** means a person admitted to membership in the Corporation and who has not ceased, resigned or terminated membership in the Corporation in accordance with the provisions of Article 3.

**“Non-Independent Director”** means a Director who is neither the President nor an Independent Director.

**“President”** means the president and chief executive officer of the Corporation appointed in accordance with Section 8.3.

**“Protected Party”** means every current and former Director, officer, employee, committee member (whether a committee of the Board or other committee of the Corporation), and his or her heirs, executors, administrators, estate and effects or any other person acting on behalf of the Corporation.

**“Regulated Persons”** means persons who are or were formerly (i) Dealer Members, (ii) members, users or subscribers of or to Marketplaces for which the Corporation is the regulation services provider, (iii) the respective representatives as designated in the Rules of any of the foregoing, and (iv) other persons subject to the jurisdiction of the Corporation.

**“Regulations”** means the regulations made under the Act as from time to time amended and every regulation that may be substituted therefor and, in the case of such substitution, any references in the By-laws to provisions of the regulations shall be read as references to the substituted provisions therefor in the new regulations.

**“Restricted Fund”** means fine and settlement monies received by the Corporation.

**“Rules”** means the Rules made pursuant to Section 13.1.

**“Significant Interest”** means in respect of any person the holding, directly or indirectly, of the securities of such person carrying in aggregate 10% or more of the voting rights attached to all of the person’s outstanding voting securities.

**“TSX”** means TSX Inc. and any continuing or successor corporation.

“**Vice-Chair**” means a Director elected by the Board to act as its vice-chair.

**Section 1.2 Interpretation**

- (1) Unless otherwise defined or interpreted in this By-law or the Rules, every term used in this By-law or the Rules that is:
  - (a) defined in subsection 1.1(3) of National Instrument 14-101 – Definitions has the meaning ascribed to it in that subsection; and
  - (b) defined or interpreted in National Instrument 21-101 – Marketplace Operation has the meaning ascribed to it in that National Instrument.
- (2) The provisions of this By-law and the Rules are subject to applicable laws. Subject to the By-laws and the Rules, any reference in this By-law or the Rules to a statute or a National Instrument refers to such statute or National Instrument and all rules and regulations made under it, as it may have been or may from time to time be amended or re-enacted.
- (3) In this By-law and the Rules and in all other By-laws hereafter passed and the Rules from time to time, unless the context otherwise requires, words importing the singular number or the masculine gender shall include the plural number or the feminine gender, as the case may be, and vice versa, and references to persons shall include, individuals, corporations, limited partnerships, general partnerships, joint ventures, associations, companies, trusts, societies or other entities, organizations and syndicates whether incorporated or not, trustees, executors, or other legal personal representatives, and any government or agency thereof. In the event of any dispute as to the meaning of the Letters Patent, By-laws or Rules, the interpretation of the Board shall be final and conclusive.

**ARTICLE 2  
AFFAIRS OF THE CORPORATION**

**Section 2.1 Seal**

The seal, an impression of which is stamped in the margin hereof, shall be the seal of the Corporation.

**Section 2.2 Head Office**

Until changed in accordance with the Act, the head office of the Corporation shall be in the Municipality of Toronto, in the Province of Ontario.

**Section 2.3 Financial Year**

Until changed by the Board, the financial year of the Corporation shall end on the last day of March in each year.

**Section 2.4 Execution of Instruments**

Transfers, assignments, contracts, obligations, certificates and other instruments may be signed on behalf of the Corporation by any two officers of the Corporation appointed in accordance with Article 8 of this By-law. In addition, the Board may from time to time direct the manner in which and the person or persons by whom any particular instrument or class of instruments may or shall be signed. Any signing officer may affix the corporate seal to any instrument requiring the same, but it is not necessary to bind the Corporation.

**Section 2.5 Banking Arrangements**

The banking arrangements of the Corporation including, without limitation, the borrowing of money and the giving of security therefor, shall be transacted with such banks, trust companies or other bodies corporate or organizations as may from time to time be designated by or under the authority of the Board. Such banking business or any part thereof shall be transacted under such agreements, instructions and delegations of powers as the Board may from time to time prescribe or authorize.

**Section 2.6 Voting Rights In Other Bodies Corporate**

Any two officers of the Corporation appointed in accordance with Article 8 of this By-law may execute and deliver proxies and arrange for the issuance of voting certificates or other evidence of the right to exercise the voting rights attaching to any securities held by the Corporation. Such instruments, certificates or other evidence shall be in favour of such person or persons as may be determined by the officers executing such proxies or arranging for the issuance of voting certificates or such other evidence of the right to exercise such voting rights. In addition, the Board may from time to time direct the manner in which and the person or persons by whom any particular voting rights or class of voting rights may or shall be exercised.

**Section 2.7 Divisions**

In addition to any other powers of the Board, the Board may, without further approval, cause the operations of the Corporation or any part thereof to be divided or segregated into one or more divisions upon such basis, including without limitation, character or type of operations, geographical territories as the Board may consider appropriate in each case. From time to time the Board, or if authorized by the Board, the President, may authorize, upon such basis as may be considered appropriate in each case:

- (a) *Sub-Division and Consolidation*: The further division of the operations of any such division into sub-units and the consolidation of the operations of any such divisions and sub-units;
- (b) *Name*: The designation of any such division or sub-unit by, and the carrying on of the operations of any such division or sub-unit, under a name other than the name of the Corporation; provided that the Corporation shall set out its name in legible characters in all contracts, invoices, negotiable instruments and orders for goods or services issued or made by or on behalf of the Corporation; and
- (c) *Officers*: The appointment of officers for any such division or sub-unit, the determination of their powers and duties, and the removal of any such officer so appointed without prejudice to such officer's rights under any employment contract or in law, provided that any such officers shall not, as such, be officers of the Corporation, unless expressly designated as such in accordance with Article 8 of this By-law.

**ARTICLE 3  
CONDITIONS OF MEMBERSHIP**

**Section 3.1 Entitlement**

The Board shall, in its discretion, decide (and may delegate to a committee of the Board or an officer of the Corporation the authority to so decide) upon all issues pertaining to eligibility for membership in accordance with the By-laws and Rules of the Corporation. The Board may, by the affirmative vote of a majority of the Directors at a meeting of the Board and sanctioned by the Members in accordance with Article 17, amend the By-law to add additional classes of Members and determine the rights and obligations pertaining to any added class. The first Members (the "First Members") shall be the first three Directors of the Corporation until such First Members elect the Board pursuant to Section 5.2. Thereafter, there shall be two classes of Members, being Marketplace Members and Dealer Members.

**Section 3.2 Dealer Members**

Subject to the By-laws and the Act, Dealer Members shall be entitled to the rights and entitlements attaching to all Members.

**Section 3.3 Marketplace Members**

Subject to the By-laws and the Act, Marketplace Members shall be entitled to the rights and entitlements attaching to all Members.

**Section 3.4 Fees**

Membership and other fees and assessments may be established by the Board in the amounts and in accordance with the terms and conditions established by or under the authority of the Board. Fees shall be imposed on an equitable basis and, as a matter of best efforts, on a cost recovery basis to the extent practicable.

**Section 3.5 Process for Approval for Membership of Dealer Members**

- (1) In the case of Dealer Members, an application for membership must be submitted to the Corporation in the form and executed in the manner prescribed by or under the authority of the Board, and shall be accompanied by such fees, information and documents as the Corporation and the applicable District Council may require.
- (2) Any firm shall be eligible to apply for membership if:
  - (a) It is formed under the laws of one of the provinces or territories of Canada and, where the firm is a corporation, it is incorporated under the laws of Canada or one of its provinces or territories;
  - (b) It carries on, or proposes to carry on, business in Canada as an investment dealer and is registered or licensed in each jurisdiction in Canada where the nature of its business requires such registration or licensing,

and is in compliance with such legislation and the requirements of any securities commission having jurisdiction over the applicant; and

- (c) Its directors, officers, partners, investors and employees, and its holding companies, affiliated entities and related companies (if any), would comply with the By-laws and Rules of the Corporation that would apply to them if the applicant were a Dealer Member.
- (3) An application for membership shall be accompanied by a non-refundable application review deposit in an amount to be determined by the Board, to be credited towards the annual fee paid by the Member in the event that the application is approved by the Board. Where, for any reason that cannot reasonably be attributed to the Corporation or its staff, the application process (other than an application of an alternative trading system) has not been completed within six months from the date the application was accepted for review by the Corporation, the deposit shall be forfeited to the Corporation and the application shall be required to be resubmitted with a new non-refundable application review deposit. For purposes of this Section, the application process shall be considered to be completed when Corporation staff recommends to the applicable District Council the approval or rejection thereof.
- (4) If in connection with the review or consideration of any application for membership, the applicable District Council or the Board is of the opinion that the nature of the applicant's business, its financial condition, the conduct of its business, the completeness of the application, the basis on which the application was made or any Corporation review in respect of the application in accordance with the By-laws and Rules of the Corporation has required, or can reasonably be expected to require, excessive attention, time and resources of the Corporation, such District Council or the Board may require the applicant to reimburse the Corporation for some or all of its costs and expenses which are reasonably attributable to such excessive attention, time and resources or provide an undertaking or security in respect of such reimbursement. If an applicant is to be required to make such reimbursement of costs and expenses, the Corporation shall provide to the applicant a breakdown and explanation of such costs and expenses in sufficient detail to permit the applicant to understand the basis on which the costs and expenses were or are to be calculated.
- (5) The process for review and approval of the application for membership shall be determined by or under the authority of the Board, and the Corporation shall make a preliminary review of the same and either:
- (a) Where the application is incomplete, provide the applicant with a deficiency letter listing the items missing from or incomplete in the application, and, once Corporation staff have determined that the deficiencies have been addressed, perform a compliance review as referred to in Section 3.5(5)(b); or
  - (b) Where the application is complete, perform a compliance review and either:
    - (i) If such review discloses substantial compliance and willingness to comply with the requirements of the By-laws and Rules of the Corporation and approval of the application is considered to be in the public interest, forward a Corporation staff recommendation to approve the application to the applicable District Council for consideration along with the membership application; or
    - (ii) If such review discloses any substantial non-compliance or unwillingness to comply with the requirements of the By-laws and Rules of the Corporation, notify the applicant as to the nature of such non-compliance or unwillingness to comply and request that the application for membership be amended in accordance with the notification of the Corporation and refiled or be withdrawn. Once Corporation staff have determined that the necessary amendments have been made to the refiled application for membership, forward a Corporation staff recommendation to approve the application to the applicable District Council for consideration along with the membership application. If the applicant declines to amend or withdraw the application for membership, forward a Corporation staff recommendation to refuse the application to the applicable District Council for consideration along with the membership application and provide a copy of the recommendation to the applicant; or
    - (iii) If such review indicates that approval of the application is not in the public interest, notify the applicant as to the nature of the public interest concerns and request that the application for membership be withdrawn. If the applicant declines to withdraw the application for membership, forward a Corporation staff recommendation to refuse the application to the applicable District Council for consideration along with the membership application and provide a copy of the recommendation to the applicant.
- (6) Once the application for membership has been determined to be complete pursuant to Section 3.5 (5), the Corporation shall notify all Dealer Members of the receipt of the application for membership. Any Dealer Member may, within fifteen days from the date of the mailing of such notification, lodge with the Corporation a written objection to the admission of

the applicant. Any objections shall be forwarded to the applicable District Council for consideration along with the membership application.

- (7) The membership application approval process, as set out in the Corporation's By-laws and Rules established from time to time, shall commence once the applicable District Council receives:
- (a) The membership application from Corporation staff;
  - (b) Notification from Corporation staff that the fifteen day period referred to in Section 3.5(6) has expired;
  - (c) Copies of any objection letters referred to in Section 3.5(6) that have been submitted relating to the application; and
  - (d) The Corporation staff recommendation to either approve or refuse the application pursuant to Section 3.5(5).
- (8) The Board shall, in its discretion and pursuant to the membership application approval process, as set out in the Corporation's By-laws and Rules established from time to time, decide (and may delegate to a committee of the Board or an officer of the Corporation the authority to so decide) upon all applications for membership but shall not consider or approve any application unless and until it has been considered by the applicable District Council and a recommendation has been received from such applicable District Council as to the approval (with or without terms and conditions) or refusal of the application. The applicant and Corporation staff shall have an opportunity to be heard in respect of any decision proposed to be made under this Section 3.5(8).
- (9) If the Board approves an application subject to terms and conditions as determined by or under the authority of the Board or refuses an application, the applicant shall be provided with a statement of the grounds upon which the Board has approved the application subject to terms and conditions or refused the application, and the particulars of those grounds.
- (10) The Board may as it considers appropriate vary or remove any such terms and conditions as may have been imposed on an applicant, if such terms and conditions are or are no longer, as the case may be, necessary to ensure that the By-laws and Rules will be complied with by the applicant. In the event that the Board proposes to vary terms and conditions in a manner which would be more burdensome to the applicant, the provisions of Section 3.5(9) shall apply in the same manner as if the Board was exercising its powers thereunder in regard to the applicant.
- (11) If, pursuant to the provisions of Section 3.5(9), the Board approves an application subject to terms and conditions or refuses an application, the Board may order that the applicant may not apply for removal or variation of terms and conditions or reapply for approval, for such period as the Board provides.
- (12) Actions upon Approval of Application:
- (a) If and when the application is approved by the Board, the Corporation shall compute the amount of the annual fee to be paid by the applicant.
  - (b) If and when the application has been approved by the Board, and the applicant has, if required to do so, been duly licensed or registered under applicable law of the province or provinces or territories in Canada in which the applicant carries on or proposes to carry on business, and upon payment of the balance of the entrance and annual fees, the applicant shall become and be a Dealer Member; and
  - (c) The Corporation shall keep a register of the names and business addresses of all Dealer Members and of their respective annual fees. The annual fees of Dealer Members shall not be made public by the Corporation.

### **Section 3.6 Acceptance of Membership for Marketplace Members**

If a Marketplace has requested that the Corporation act as the regulation services provider for that Marketplace, the Marketplace shall be accepted as a Marketplace Member effective upon the execution of an agreement with the Marketplace that has been authorized by the Board, for the Corporation to be the regulation services provider to that Marketplace. A Marketplace shall cease to be a Marketplace Member upon the termination of the agreement for the Corporation to be the regulation services provider to the Marketplace.

### **Section 3.7 Amalgamation of Members**

If two or more Members propose to amalgamate and continue as one Member, the continuing Member shall not be considered to be a new Member or be required to re-apply for membership, except as otherwise determined by the Board and

provided that the continuing Member otherwise complies with the By-laws and Rules including the payment of Member fees, if applicable.

**Section 3.8 Dealer Member Resignation**

Subject to Section 13.5, a Dealer Member wishing to resign shall address a letter of resignation to the Board in the form and containing such information prescribed by the Board which resignation shall become effective when approved by the Board, in accordance with the Rules. A Dealer Member resigning from the Corporation shall make full payment of its annual fee, if applicable, for the financial year in which its resignation becomes effective.

**Section 3.9 Dealer Member Removal**

Unless a Dealer Member has voluntarily resigned, the Board may terminate the membership of any Dealer Member in accordance with the By-laws and Rules.

**Section 3.10 Transferability**

Membership is not transferable, unless approved by the Board.

**ARTICLE 4  
MEMBERS' MEETINGS**

**Section 4.1 Annual Meeting**

The annual meeting of the Members shall be held on a date to be determined by the Board, but in any case shall be held within six months after the end of the Corporation's fiscal year. Each annual meeting shall be held at the head office of the Corporation or at any other place in Canada as the Board may determine. The Members may resolve that a particular meeting of Members may be held outside of Canada. At every annual meeting, in addition to any other business that may be transacted, the report of the Directors, the financial statements and the report of the auditors shall be presented and auditors shall be appointed for the ensuing year.

**Section 4.2 Special or General Meetings**

Members may consider and transact any business either special or general at any meeting of the Members. The Board, the Chair, Vice-Chair, the President, or a designated vice-president shall have power to call, at any time, a general meeting of the Members. The Board shall call a special general meeting of Members on written requisition of Members representing not less than twenty percent of the number of Members.

**Section 4.3 Quorum**

Unless otherwise provided by the Act, the Letters Patent or any other By-law, twenty percent of Members shall constitute a quorum at any meeting of the Members provided such Members are present in person or represented by a duly appointed proxyholder. If a quorum is present at the opening of any meeting of Members, the Members present or represented by proxy may proceed with the business of the meeting notwithstanding that a quorum is not present throughout the meeting. If a quorum is not present at the opening of any meeting of Members, the Members present or represented by proxy may adjourn the meeting to a fixed time and place but may not transact any other business.

**Section 4.4 List of Members Entitled to Notice**

For every meeting of Members, the Corporation shall prepare a list, in alphabetic order and arranged by class, of Members entitled to receive notice of and vote at the meeting. The Members listed shall be those registered at the close of business on the day immediately preceding the day on which notice of the meeting is given. The list shall be available for examination by any Member during usual business hours at the head office of the Corporation and at the meeting for which the list was prepared.

**Section 4.5 Notice**

Fourteen days notice shall be given to each Member of any annual or special general meeting of Members in the manner prescribed by the Rules and Policies. Notice of any meeting where special business will be transacted shall contain sufficient information to permit the Member to form a reasoned judgement on the decision to be taken upon which the Member is entitled to vote. Notice of each meeting of Members must remind the Member entitled to vote that the Member has the right to vote by proxy, and must attach a form of proxy.

**Section 4.6 Proxies**

- (1) Votes at meetings of the Members may be given either personally or by proxy or, in the case of a Member who is a body corporate or association, by an individual authorized by a resolution of the Board or governing body of the body corporate or association to represent it at meetings of the Members of the Corporation. At every meeting at which a Member is entitled to vote, every Member and/or person appointed by proxy to represent one or more Members and/or individuals so authorized to represent a Member who is present in person shall have one vote on a show of hands. Upon a poll and subject to the By-laws, every Member who is entitled to vote at the meeting and who is present in person or represented by an individual so authorized shall have one vote and every person appointed by proxy shall have one vote for each Member who is entitled to vote at the meeting and who is represented by such proxyholder.
- (2) A proxy shall be executed by the Member or the Member's attorney authorized in writing or, if the Member is a body corporate or association, by an officer or employee of a Member or of an affiliated entity of a Member.
- (3) A person appointed by proxy must be a director, officer or employee of a Member or of an affiliated entity of a Member.
- (4) The Board may from time to time establish requirements regarding the lodging of proxies at some place or places other than the place at which a meeting or adjourned meeting of Members is to be held and for particulars of such proxies to be sent by facsimile or in writing before the meeting or adjourned meeting to the Corporation or any agent of the Corporation for the purpose of receiving such particulars and providing that proxies so lodged may be voted upon as though the proxies themselves were produced at the meeting or adjourned meeting and votes given in accordance with such requirements shall be valid and shall be counted. The chair of any meeting of Members may, subject to any requirements established as aforesaid, in the chair's discretion accept facsimile or written communication as to the authority of any person claiming to vote on behalf of and to represent a Member notwithstanding that no proxy conferring such authority has been lodged with the Corporation, and any votes given in accordance with such facsimile or written communication accepted by the chair of the meeting shall be valid and shall be counted.

**Section 4.7 Votes**

The voting rights of the Members at any meeting of Members shall be as follows:

- (a) In the case of a vote for the election of Directors, each Member present at a meeting to elect such Directors shall have the right to exercise one vote. A majority of votes cast by the Members, voting together, present and carrying voting rights shall elect a nominee;
- (b) In the case of a vote for the removal of a Director, each Member present at a meeting to consider the removal of the Director shall have the right to exercise one vote. Two-thirds of the votes cast by the Members, voting together, present and carrying voting rights to remove a Director shall remove such Director from office;
- (c) In the case of a vote for the repeal, amendment or enactment of a By-law or to authorize an application for supplementary Letters Patent (including increasing the size of the Board or adding new classes of members) or to approve the sale or transfer of all or substantially all the Corporation's assets, or an amalgamation or plan of arrangement, each Member shall have the right to exercise one vote at a meeting at which such approval is required, and except as required by the Letters Patent or the Act, every such question shall be decided by at least two-thirds of the votes cast on the question by the Members, voting together, present and carrying voting rights;
- (d) On all other questions or matters to be decided at a meeting, each Member present at a meeting shall have the right to exercise one vote. A majority of votes cast by all Members, voting together, present and carrying voting rights shall decide the question or matter.

**Section 4.8 Meetings by Conference Telephone**

- (1) A Member may participate in a meeting of the Members by means of teleconference or by other electronic means that permit all persons participating in the meeting to communicate adequately with each other, provided that each Member has equal access to the specific means of communication to be used and that each Member has consented in advance to meeting by such means, and a Member participating in such a meeting by such means is deemed to be present at the meeting.
- (2) At the outset of each meeting referred to in subsection (1) and whenever votes are required, the chair of the meeting shall establish the existence of a quorum and unless a majority of the Members present at such meeting otherwise require, adjourn the meeting to a predetermined date, time and place whenever not satisfied that the proceedings of the meeting may proceed with adequate security and confidentiality.

**Section 4.9 Chair, Secretary and Scrutineers**

The chair of any meeting of Members shall be the first mentioned of such of the following officers as have been appointed and who is present at the meeting: Chair, Vice-Chair, or the President. If no such officer is present within fifteen minutes from the time fixed for holding the meeting, the persons present and entitled to vote on behalf of Members shall choose one of their number to be chair. If the secretary of the Corporation is absent, the chair shall appoint an individual who is authorized to vote on behalf of a Member to act as secretary of the meeting. If desired, one or more scrutineers, who need not be Members, may be appointed by a resolution or by the chair with the consent of the meeting.

**Section 4.10 Persons Entitled to be Present**

The only persons entitled to be present at a meeting of Members shall be those entitled to vote thereat, the Directors and auditor of the Corporation and others who, although not entitled to vote, are entitled or required under any provision of the Act, the Letters Patent or By-laws to be present at the meeting. Any other person may be admitted only on the invitation of the chair of the meeting or with the consent of the meeting.

**Section 4.11 Show of Hands**

Subject to the provisions of the Act, any question at a meeting of Members shall be decided by a show of hands, unless a ballot thereon is required or demanded in accordance with Section 4.12. Subject to the By-laws, upon a show of hands, every person who is present and entitled to vote on behalf of a Member shall have one vote. Whenever a vote by show of hands shall have been taken upon a question, unless a ballot thereon is so required or demanded, a declaration by the chair of the meeting that the vote upon the question has been carried or carried by a particular majority or not carried and an entry to that effect in the minutes of the meeting shall be *prima facie* evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against any resolution or other proceeding in respect of the said question, and the result of the vote so taken shall be the decision of the Members upon the said question.

**Section 4.12 Ballots**

On any question proposed for consideration at a meeting of Members, and whether or not a show of hands has been taken thereon, the chair or any person who is present and entitled to vote, whether as proxyholder or representative, on such questions at the meeting may demand a ballot. A ballot so required or demanded shall be taken in such manner as the chair shall direct. A requirement or demand for a ballot may be withdrawn at any time prior to the taking of the ballot. If a ballot is taken each person present shall be entitled to that number of votes provided by the By-laws and the result of the ballot so taken shall be the decision of the Members upon the said question.

**Section 4.13 Adjournment**

The chair at a meeting of Members may, with the consent of the meeting and subject to such conditions as the meeting may decide, adjourn the meeting from time to time and place to place. If a meeting of Members is adjourned for less than thirty days, it shall not be necessary to give notice of the adjourned meeting, other than by announcement at the earliest meeting that is adjourned.

**ARTICLE 5  
BOARD OF DIRECTORS**

**Section 5.1 Number and Qualifications**

Subject to the Letters Patent, the Board shall be comprised of fifteen Directors. Directors must be individuals, 18 years of age, with power under law to contract. A majority of the Directors shall be resident Canadians. Directors need not be Members.

**Section 5.2 First Directors**

The applicants for incorporation shall become the first Directors of the Corporation whose term of office on the Board shall continue until their successors are elected in accordance with the following sentence. The First Members referred to in Section 3.1 shall elect a Board comprised of up to fifteen directors, constituted as set forth in Section 5.3(2), who shall replace the Directors named in the Letters Patent and the term of office of such Directors shall continue until their successors are elected at the first annual meeting of Members as set forth in Section 5.4.

**Section 5.3 Director Representation**

- (1) At all times, the Board shall consist of an uneven number of Directors, which shall include the President and an equal number of Independent Directors and Non-Independent Directors; and
- (2) Subject to Section 5.2, the Board shall be comprised of fifteen Directors as follows:
  - (i) Two Marketplace Directors,
  - (ii) Five Dealer Directors,
  - (iii) Seven Independent Directors, and
  - (iv) The President who shall be appointed to the Board.

**Section 5.4 Election and Term**

- (1) Subject to Section 5.2 and subsection 5.4(2), the term of each Dealer Director, Independent Director and Marketplace Director elected at a meeting of Members shall expire at the dissolution or adjournment of the second annual meeting of Members following the annual meeting of Members at which the Director was elected.
- (2) At the first annual meeting of Members, fourteen Directors shall be elected and the Board shall designate:
  - (a) Three of the positions of Independent Director, two of the positions of Dealer Director and one of the positions of Marketplace Director to be for a term that shall expire at the second annual meeting of Members; and
  - (b) Four of the positions of Independent Director, three of the positions of Dealer Director and one of the positions of Marketplace Director to be for a term that shall expire at the third annual meeting of Members.
- (3) With the exception of the President, a Director may be elected to serve four consecutive terms in office but shall not be eligible to be elected to serve a fifth consecutive term. For purposes of determining the number of consecutive terms in office of a Director elected by the First Members in accordance with Section 5.2 who is re-elected at the first annual meeting of Members in accordance with subsection 5.4(2), his or her term in office prior to the first annual meeting of Members shall not be included. Those Directors elected at the first annual meeting of Members to serve for an initial one year term shall be limited to three additional consecutive terms in office.

**Section 5.5 Recommendation of Director Nominees for Election**

- (1) Prior to each annual meeting of Members at which Directors are to be elected:
  - (a) The Corporate Governance Committee shall review and select for recommendation to the Board as nominees such number of qualified candidates for election as Dealer Directors, Marketplace Directors and Independent Directors as are to be elected at the annual meeting. The Corporate Governance Committee will evaluate individual candidates based on their ability to contribute a range of knowledge, skills and experience and having regard for the required composition of the Board and the fact that the Board, as a whole, should be representative of the Corporation's various stakeholders;
  - (b) In selecting nominees for election at a particular annual meeting the Corporate Governance Committee shall ensure that, if each of the nominees is elected, the Board would have:
    - (i) at least one Director, who need not be a Marketplace Director, with experience and expertise in respect of public venture equity markets,
    - (ii) a Marketplace Director recommended by TSX for nomination by the Corporate Governance Committee if, at the date of the selection of nominees:
      - (A) TSX is a Member, and
      - (B) the aggregate of the Market Share of TSX and each Marketplace that is an associate or an affiliated entity of TSX is not less than forty percent, and
    - (iii) at least one Director, who need not be a Marketplace Director, who is a partner, director, officer or employee of:

- (A) a Marketplace,
- (B) an associate of a Marketplace, or
- (C) an affiliated entity of a Marketplace,

other than TSX or a Marketplace that is an associate or an affiliated entity of TSX; and

- (c) If a Marketplace Director recommended for nomination by TSX is to be elected at the annual meeting, TSX shall notify the secretary of the Corporation in writing of the recommendation of a qualified candidate for nomination and election as one of the Marketplace Directors.
- (2) The Board shall nominate for election to the Board at the annual meeting the persons as determined in accordance with this Section 5.5.
- (3) The Members shall not elect to the Board at any annual meeting any person who has not been nominated by the Board in accordance with this Section 5.5.

**Section 5.6 Vacancies**

The office of Director shall be automatically vacated:

- (a) If a resolution to remove the Director has been approved by the Members in accordance with Section 4.7(b);
- (b) In the case of a Director appointed to the Board by reason of holding the office of President, if the Director ceases to be President;
- (c) In the case of an Independent Director, if the Director ceases to be qualified as an Independent Director;
- (d) If a Director shall have resigned the office by delivering a written resignation to the secretary of the Corporation;
- (e) If the Director is found by a court to be of unsound mind;
- (f) If the Director becomes bankrupt; or
- (g) If the Director dies.

**Section 5.7 Filling Vacancies**

If a vacancy in the Board shall occur for any reason, the vacancy shall be filled (allowing a reasonable period of time for doing so) for the balance of the term of the Director that vacated the office by a resolution passed by the Board appointing a Director, provided that:

- (a) If the vacancy is caused by the departure of the President, the person to be appointed to the office of the President has been appointed by the Board;
- (b) If the vacancy is caused by the departure of an Independent Director, Dealer Director or Marketplace Director, the person to be appointed has been identified and recommended by the Corporate Governance Committee and in the case of a vacancy of:
  - (i) an Independent Director, the person recommended is qualified as an Independent Director,
  - (ii) a Dealer Director, the person recommended is qualified as a Dealer Director, and
  - (iii) a Marketplace Director, the person recommended is qualified as a Marketplace Director;
- (c) In recommending a person for appointment to fill a vacancy the Corporate Governance Committee shall ensure that, if the person recommended is appointed, the Board would have:
  - (i) at least one Director, who need not be a Marketplace Director, with particular experience and expertise in respect of public venture equity markets,

- (ii) a Marketplace Director recommended for appointment by TSX if, at the date of the recommendation:
  - (A) TSX is a Member, and
  - (B) the aggregate of the Market Share of TSX and each Marketplace that is an associate or an affiliated entity of TSX is not less than forty percent, and
- (iii) at least one Director, who need not be a Marketplace Director, who is a partner, director, officer or employee of:
  - (A) a Marketplace,
  - (B) an associate of a Marketplace, or
  - (C) an affiliated entity of a Marketplace,other than TSX or a Marketplace that is an associate or an affiliated entity of TSX;
- (d) If a Marketplace Director recommended for appointment by TSX is to be appointed, TSX shall notify the secretary of the Corporation in writing of the recommendation of a qualified candidate for appointment; and
- (e) If the vacancy is caused by the failure to elect the required number of Directors, the Board may appoint a Director to fill the vacancy on the basis that the vacancy arose by reason of the departure of an Independent Director, Dealer Director or Marketplace Director (including a Marketplace Director to be recommended by TSX) and the provisions of subsections 5.7(b), (c) and (d) shall apply according to whether the vacancy relates to an Independent Director, Member Director or Marketplace Director, as the case may be.

**Section 5.8 Remuneration of Directors**

The Board may determine from time to time such reasonable remuneration, if any, to be paid to the Independent Directors for serving as such and the Board may determine that such remuneration need not be the same for all Directors. Non-Independent Directors shall not receive remuneration for serving as such. Directors may be reimbursed for reasonable expenses incurred by a Director in the performance of the Director's duties.

**Section 5.9 Release of Claims**

When a Director ceases to hold office, the Corporation shall release a resigning or departing Director of all claims with respect to any matter or thing up to and including the resignation or departure in the capacity as a Director, except for any claims (other than to the extent the Director is indemnified by the Corporation pursuant to Section 9.2) which might arise out of the gross negligence or fraud of the resigning or departing Director.

**ARTICLE 6  
POWERS OF DIRECTORS**

**Section 6.1 Administer Affairs**

The Board shall supervise the management of the affairs of the Corporation. Subject to the By-laws and the Act, the powers of the Board may be exercised by resolution passed at a meeting at which a quorum is present or by resolution in writing signed by all the Directors entitled to vote on that resolution at a meeting of the Board. If there is a vacancy on the Board, the remaining Directors may exercise all the powers of the Board so long as a quorum remains in office.

**Section 6.2 Expenditures**

The Board shall have power to authorize expenditures on behalf of the Corporation from time to time and may delegate by resolution to an officer or officers of the Corporation the right to employ and pay salaries to employees.

**Section 6.3 Borrowing Power**

- (1) The Board is hereby authorized, from time to time, without the authorization of the Members:
  - (a) To borrow money upon the credit of the Corporation;
  - (b) To limit or increase the amount to be borrowed;

- (c) To issue or cause to be issued, bonds, debentures or other securities of the Corporation and to pledge or sell the same for such sums, upon such terms, covenants and conditions and at such prices as may be deemed expedient by the Board;
  - (d) To secure any such bond, debentures or other securities, or any other present or future borrowing or liability of the Corporation, by mortgage, hypothec, charge or pledge of all or any currently owned or subsequently acquired real and personal, movable and immovable, property of the Corporation, and the undertaking and rights of the Corporation; and
  - (e) Delegate to a committee of the Board, a Director or an officer or officers of the Corporation all or any of the powers conferred on the Board under this subsection to such extent and in such manner as the Board may determine at the time of such delegation.
- (2) The powers hereby conferred shall be deemed to be in supplement of and not in substitution for any powers to borrow money for the purposes of the Corporation possessed by its Directors or officers independently of this By-law.

**Section 6.4 Conflict of Interest**

- (1) A Director who is in any way directly or indirectly interested in a contract or proposed contract with the Corporation shall make the disclosure required by the Act and except as provided by the Act, no such Director shall vote on any resolution to approve any such contract. In supplement of and not by way of limitation upon any rights conferred upon Directors by Section 98 of the Act and specifically subject to the provisions contained in that Section, it is declared that no Director shall be disqualified from any such office by, or vacate any such office by reason of, holding any office with the Corporation or with any corporation in which the Corporation shall be a shareholder or by reason of being otherwise in any way directly or indirectly interested or contracting with the Corporation as vendor, purchaser or otherwise or being concerned in any contract or arrangement made or proposed to be entered into with the Corporation in which the Director is in any way directly or indirectly interested as vendor, purchaser or otherwise. Subject to compliance with the Act, no contract or arrangement entered into by or on behalf of the Corporation in which any Director shall be in any way directly or indirectly interested shall be void or voidable and no Director shall be liable to account to the Corporation or any of its Members or creditors for any profit realized by or from any such contract or arrangement by reason of any fiduciary relationship. Notwithstanding the foregoing prohibitions on voting by a Director, such Director may be present at and counted to determine the presence of a quorum at the relevant meeting of Directors.
- (2) A Director who is a party to, or who is a director, officer or employee of or has a material interest in any person who is a party to, a regulatory matter or regulatory investigation in which the Corporation is involved shall disclose the nature and extent of his or her interest at the time and in the manner required by subsection 6.4(1) for an interest in a contract or transaction. Such Director shall not vote on any such matter or investigation, and shall withdraw from the part of any meeting of the Board at which the matter or investigation is discussed or considered, if such matter or investigation is directed specifically at or otherwise directly relates to the Director or a person of which he or she is an employee, officer or director or in which he or she has a material interest.

**ARTICLE 7  
DIRECTORS' MEETINGS**

**Section 7.1 Place of Meeting**

Meetings of the Board may be held at any place to be determined by the Board, inside or outside of Canada.

**Section 7.2 Calling of Meetings**

Meetings of the Board shall be held from time to time at such time as the Board, the Chair, the President, or any two Directors may determine.

**Section 7.3 Notice of Meetings**

Forty-eight hours written notice of any meeting of the Board shall be given, other than by mail, to each Director. Notice by mail shall be sent at least fourteen days prior to the meeting. There shall be at least one meeting per calendar quarter of the Board. Any notice shall describe the matters to be addressed at the meeting. A meeting of the Board shall be held immediately following an annual meeting without notice, provided a quorum is present.

**Section 7.4 Adjourned Meeting**

Notice of an adjourned meeting of the Board is not required if the time and place of the adjourned meeting is announced at the original meeting.

**Section 7.5 Regular Meetings**

The Board may appoint a day or days in any month or months for regular meetings of the Board at a place and hour to be named. A copy of any resolution of the Board fixing the place and time of such regular meetings shall be sent to each Director forthwith after being passed, but no other notice shall be required for any such regular meeting except where the Act requires the purpose thereof or the business to be transacted thereat to be specified and except where non-routine business is to be discussed.

**Section 7.6 Chair of Meetings of the Board**

The chair of any meeting of the Board shall be the first mentioned of such of the following officers as have been appointed and who is a Director and is present at the meeting: Chair, Vice-Chair or the President. If no such officer is present, the Directors present shall choose one of their number to be chair.

**Section 7.7 Voting Rights**

Each Director is authorized to exercise one vote at all meetings of the Board, and except as required by the Letters Patent or the Act, every question shall be decided by a majority of the votes cast on the question and, in case of an equality of votes, the chair of the meeting shall not be entitled to a second or casting vote.

**Section 7.8 Meetings by Conference Telephone**

- (1) A Director may participate in a meeting of the Board or of a committee of the Board by means of teleconference or by other electronic means that permit all persons participating in the meeting to communicate adequately with each other, provided that each Director has equal access to the specific means of communication to be used and that each Director has consented in advance to meeting by such means, and a Director participating in such a meeting by such means is deemed to be present at the meeting.
- (2) At the outset of each meeting referred to in the foregoing subsection and whenever votes are required, the chair of the meeting shall establish the existence of a quorum and, unless a majority of the Directors present at such meeting otherwise require, adjourn the meeting to a predetermined date, time and place whenever not satisfied that the proceedings of the meeting may proceed with adequate security and confidentiality.

**Section 7.9 Quorum**

A majority of the Directors in office including at least fifty percent of the Independent Directors in office from time to time shall constitute a quorum for meetings of the Board. Any meeting of the Board at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions by or under the By-laws.

**Section 7.10 Minutes of Meetings**

The minutes of the Board shall not be available to the Members but shall be available to the Directors, each of whom shall receive a copy of such minutes.

**ARTICLE 8  
OFFICERS**

**Section 8.1 Appointment**

The Board may annually or more often as may be required, appoint a Chair, a Vice-Chair, a President, one or more vice-presidents, a secretary and any such other officers as the Board may determine, including one or more assistants to any of the officers so appointed. The Board may specify the duties of and, in accordance with this By-law and subject to the provisions of the Act, delegate to such officers powers to manage the affairs of the Corporation. Except as otherwise provided in this By-law, officers need not be Directors, nor Members.

**Section 8.2 Chair and Vice-Chair of the Board**

The Board shall from time to time appoint a Chair of the Board and may appoint one or more Vice-Chairs of the Board who shall be Directors and may not be President. If appointed, the Board may assign to them any of the powers and duties that are by any provisions of a By-law assigned to the President, and they shall, subject to the provisions of the Act, have such other powers and duties as the Board may specify. During the absence or disability of the Chair, the Vice-Chair shall perform the duties and exercise the powers of Chair.

**Section 8.3 President and Chief Executive Officer**

The Board shall appoint a President, who shall also be appointed as the chief executive officer. The President shall have such powers and duties as the Board may specify.

**Section 8.4 Vice-President**

A vice-president shall have such powers and duties as the Board or the President may specify.

**Section 8.5 Secretary**

The secretary shall attend and be the secretary of all meetings of the Board (or arrange for another individual to so act), Members and committees of the Board and shall enter or cause to be entered in records kept for that purpose minutes of all proceedings thereat; the secretary shall give or cause to be given, as and when instructed, all notices to Members, Directors, officers, auditors and members of committees of the Board; the secretary shall be the custodian of the stamp or mechanical device generally used for affixing the corporate seal of the Corporation and of all books, papers, records, documents, and instruments belonging to the Corporation, except when some other officer or agent has been appointed for that purpose; and the secretary shall have such other powers and duties as the Board or the President may specify.

**Section 8.6 Powers and Duties of Other Officers**

The powers and duties of all other officers shall be such as the terms of their engagement call for or as the Board or the President may specify. Any of the powers and duties of an officer to whom an assistant has been appointed may be exercised and performed by such assistant, unless the Board or the President otherwise directs.

**Section 8.7 Variation of Powers and Duties**

The Board may from time to time and subject to the provisions of the Act, vary, add to or limit the powers and duties of any officer.

**Section 8.8 Term of Office**

The Board, in its discretion, may remove any officer of the Corporation, without prejudice to such officer's rights under any employment contract. Otherwise, each officer appointed by the Board shall hold office until his or her successor is appointed, or until his or her earlier resignation.

**Section 8.9 Terms of Employment and Remuneration**

The terms of employment and the remuneration of an officer appointed by the Board shall be settled by the Board from time to time or by a committee of the Board appointed for that purpose.

**Section 8.10 Conflict of Interest**

An officer shall disclose any interest in any material contract or proposed material contract with the Corporation.

**Section 8.11 Agents and Attorneys**

The Corporation, by or under the authority of the Board, shall have power from time to time to appoint agents or attorneys for the Corporation in or outside Canada with such powers of management, administration or otherwise (including the power to sub-delegate) as may be thought fit, subject to the provisions of the Act.

**ARTICLE 9  
PROTECTION OF DIRECTORS AND OTHERS**

**Section 9.1      Limitation of Liability**

No Protected Party shall be liable for the acts, neglect or defaults of any other Protected Party, or for any other loss, damage or misfortune whatsoever which shall happen in the execution of the duties of his or her office or position or in relation thereto unless the same are occasioned by his or her own wilful neglect or default.

**Section 9.2      Indemnities to Directors and Others**

(1) Each Indemnified Party shall, from time to time and at all times, be indemnified and saved harmless out of the funds of the Corporation, from and against:

- (a) all costs, charges, fines, damages and penalties and expenses whatsoever that such Indemnified Party sustains or incurs in or about or to settle any action, suit or proceeding which is threatened, brought, commenced or prosecuted against him or her, or in respect of any act, deed, matter or thing whatsoever, made, done or permitted by him or her, in or about the execution of the duties of his or her office or position or in respect of any such liability including those duties executed, whether in an official capacity or not, for or on behalf of or in relation to any body corporate or entity which he or she serves or served at the request of or on behalf of the Corporation; and
- (b) all other costs, charges and expenses which he or she sustains or incurs in or about or in relation to the affairs thereof, including an amount representing the value of time any such Indemnified Party spent in relation thereto and any income or other taxes or assessments incurred in respect of the indemnification provided for in this By-law,

until it is conclusively determined that such Indemnified Party shall no longer be entitled to such indemnification, and except for such costs, charges, damages and expenses as are occasioned by his or her own wilful neglect or default.

(2) The Corporation shall also indemnify such persons in such other circumstances as the Act permits or requires. Nothing in this By-law shall limit the right of any person entitled to indemnity apart from the provisions of this By-law.

**Section 9.3      Insurance**

The Corporation may purchase and maintain insurance for the benefit of any Indemnified Party against such liabilities and in such amounts as the Board may from time to time determine and are permitted by the Act.

**ARTICLE 10  
DISTRICT COUNCILS**

**Section 10.1      Designation of District**

The Board may from time to time designate any geographic area in Canada as a District of the Corporation, and may change or terminate any such designation at its discretion. The originating geographic areas of Canada have been designated as Districts of the Corporation as follows, until changed or terminated by the Board:

- (a) Newfoundland and Labrador District;
- (b) Prince Edward Island District;
- (c) Nova Scotia District;
- (d) New Brunswick District;
- (e) Québec District;
- (f) Ontario District;
- (g) Manitoba District, composed of the Province of Manitoba and the Territory of Nunavut;
- (h) Saskatchewan District;

- (i) Alberta District, composed of the Province of Alberta and the Northwest Territories; and
- (j) Pacific District, composed of the Province of British Columbia and the Yukon Territory.

**Section 10.2 Composition of District Councils**

- (1) There shall be a District Council in each District. Each District Council shall be composed of four to twenty members, as determined from time to time by the District Council, including a chair and vice-chair to be elected at the annual meeting of Dealer Members of the District.
- (2) In addition to the members of the District Council elected at the annual meeting of Dealer Members of the District, the Board may appoint one or more ex-officio members of a District Council.

**Section 10.3 Duties and Powers**

Each District Council shall have the duties and procedures and exercise the powers with respect to Dealer Members specified in this By-law and the Rules.

**Section 10.4 Meetings of District Members**

The Dealer Members of each District shall meet at least annually for the purpose of electing members of the District Council. A meeting of the Dealer Members of any District may be called by the District Council or by the Board and shall be held and conducted in accordance with the By-laws and Rules, and the procedures established by the Board from time to time. Notice of the time and place of any such meeting shall be given to the Dealer Members of the District. Two Members of the District entitled to vote, present personally or by a partner, director or officer shall be a quorum for any meeting of the Dealer Members of the District. Unless otherwise determined by the Board, voting at any meeting of the Dealer Members of a District may be carried out in the same manner as provided for voting at meetings of the Corporation. Instruments of proxy for such purpose shall be lodged with the Chair of the District Council not later than 10:00 a.m. of the day of the meeting or of any adjournment thereof.

**Section 10.5 Initial District Councils**

- (1) On a date determined by the Board, the initial District Council of each District shall be established and shall be comprised of the members of the District Council of such District for the Investment Dealers Association of Canada on the day immediately preceding the date determined by the Board, such members being those individuals most recently elected at the annual meeting of Dealer Members of a District or, failing such election, such other members of a District Council in office on the applicable date.
- (2) Each member of the District Council described in subsection 10.5(1) above shall hold office until the first annual meeting of the Dealer Members of the District, held in accordance with Section 10.4.

**ARTICLE 11  
COMMITTEES AND ADVISORY BODIES**

**Section 11.1 Committees of the Board**

The Board may from time to time in its discretion appoint from their number one or more committees of the Board with such powers as the Board may determine including, without limitation, the authority to exercise any of the powers of the Board and to act in all matters for and in the name of the Board under the By-laws and Rules, except in each case where By-laws or Rules specifically require an action by, or approval of, the Board. The members of any committee established by the Board shall be appointed annually at the first meeting of Directors following the annual meeting of Members at which Directors have been elected. Unless otherwise provided in this By-law, any Director shall be entitled to be appointed to any committee and a majority of the members of a committee present in person or by telephone shall constitute a quorum, provided that if Independent Directors must be members of the committee, the quorum must also include a majority of the Independent Directors who are members of the committee.

**Section 11.2 Corporate Governance Committee**

The Board shall establish a Corporate Governance Committee composed of at least five Directors, and may include the Chair. Unless the Chair is a Non-Independent Director, all of the members shall be Independent Directors. The chair of the Corporate Governance Committee shall be an Independent Director elected by the members of the Corporate Governance Committee. The Corporate Governance Committee shall perform such duties as the Board may delegate or direct from time to time.

**Section 11.3 Finance and Audit Committee**

The Board shall establish a Finance and Audit Committee composed of at least five Directors of whom a majority shall be Independent Directors. The chair of the Finance and Audit Committee shall be an Independent Director elected by the members of the Finance and Audit Committee. The Finance and Audit Committee shall review and report to the Board on the annual financial statements of the Corporation and shall perform such other duties as the Board may delegate or direct from time to time.

**Section 11.4 Human Resources and Pension Committee**

The Board shall establish a Human Resources and Pension Committee composed of at least five Directors. The chair of the Human Resources and Pension Committee shall be elected by the members of the Human Resources and Pension Committee. The Human Resources and Pension Committee shall perform such duties as the Board may delegate or direct from time to time.

**Section 11.5 Committee Meetings**

The Board may prescribe requirements and procedures not inconsistent with the Act and the By-laws relating to the calling of meetings of, and conduct or business by, committees of the Board. Subject to the By-laws and Rules and any resolution of the Board, meetings of any such committee shall be held at any time and place to be determined by the chair of the committee or its members provided that at least 48 hours' prior written notice of such meetings shall be given, other than by mail, to each member of the committee. Notice by mail shall be sent at least 14 days prior to the meeting.

**Section 11.6 Advisory Bodies**

The Board may from time to time appoint such advisory bodies as it may deem advisable, and may delegate such power of appointment to any Director, officer, committee or employee of the Corporation. Membership on such advisory bodies shall be determined by the Board from time to time and if the Board so decides, members of such advisory bodies may be persons other than Directors, Members or directors, officers or employees of a Member.

**Section 11.7 Procedure**

Unless otherwise determined by the Board, this By-law or the Rules, each committee and advisory body shall have power to regulate its procedure.

**ARTICLE 12  
NOTICES**

**Section 12.1 Method of Giving Notices**

Any notice (which term includes any communication or document) to be given (which term includes sent, delivered, or served) pursuant to the Act, the regulations thereunder, the Letters Patent, the By-laws or otherwise to a Member, Director, officer, auditor or member of a committee of the Board shall be sufficiently given if delivered personally to the person to whom it is to be given; or if delivered to the person's recorded address; or if mailed to the person at the person's recorded address by prepaid ordinary or air mail; or if sent to the person at the person's recorded address by any means of prepaid transmitted or recorded communication (including any form of electronic communication). A notice so delivered shall be deemed to have been given when it is delivered personally or to the recorded address as aforesaid; a notice so mailed shall be deemed to have been given when deposited in a post office or public letter box and deemed to have been received on the fifth day after mailing; and a notice so sent by any means of transmitted or recorded communication shall be deemed to have been given when dispatched or delivered to the appropriate communication company or agency or its representative for dispatch. The secretary may change or cause to be changed the recorded address of any Member, Director, officer, auditor or member of a committee of the Board in accordance with any information believed by the secretary to be reliable. The foregoing shall not be construed so as to limit the manner or effect of giving notice by any other means of communication otherwise permitted by law or as authorized by this By-law.

**Section 12.2 Undelivered Notices**

If any notice given to a Member pursuant to Section 12.1 is returned on three consecutive occasions because the Member cannot be found, the Corporation shall not be required to give any further notices to such Member until the Member informs the Corporation in writing of the Member's new address.

**Section 12.3 Omissions and Errors**

The accidental omission to give any notice to any Member, Director, officer, auditor or member of a committee of the Board or the non-receipt of any notice by any such person or any error in any notice not affecting the substance thereof shall not invalidate any action taken at any meeting held pursuant to such notice or otherwise founded thereon.

**Section 12.4 Waiver of Notice**

Any Member, proxyholder, representative, other person entitled to attend a Members' Meeting, Director, officer, auditor or member of a committee of the Board may at any time waive any notice, or waive or abridge the time for any notice, required to be given to such person under any provision of the Act, the regulations thereunder, the Letters Patent, the By-laws or otherwise and such waiver or abridgement, whether given before or after the meeting or other event of which notice is required to be given, shall cure any default in the giving or in the time of such notice, as the case may be. Any such waiver or abridgement shall be in writing except a waiver of notice of a meeting of the Board or of a committee of the Board which may be given in any manner.

**ARTICLE 13  
RULES AND OTHER INSTRUMENTS**

**Section 13.1 Power to Make, Amend or Repeal Rules**

The Board may make and from time to time amend or repeal such Rules for the objects of the Corporation as a self-regulatory organization (including permissible uses for the Restricted Fund) and a regulation services provider. All such Rules for the time being in force, unless expressly otherwise provided, shall be binding upon all Regulated Persons. Rules made or amended may be designated with such style, name or title as approved by the Board. Rules shall be effective without Member approval or approval by any other person, except as expressly otherwise provided therein or pursuant to any applicable legislation. Rules may represent the imposition of requirements in addition to or higher than those imposed under the applicable securities legislation.

**Section 13.2 Use of Restricted Fund**

Permissible uses for the Restricted Fund will be subject to the terms of recognition orders issued by the securities commission (or any successor regulatory authorities thereto) in the jurisdictions in which the Corporation is recognized as a self-regulatory organization.

**Section 13.3 Other Instruments**

If under any By-law or Rule, another instrument may be prescribed or adopted, any such instrument (including any instructions, directions, notices, bulletins, forms or notes) that is prescribed or adopted by the Corporation shall have the same force and effect as the By-law or Rule pursuant to which it is prescribed or adopted. Any reference in the By-laws or Rules to compliance with the By-laws or Rules shall be deemed to include a reference to any such other instrument that is prescribed or adopted.

**Section 13.4 Notices, Guidelines, Etc.**

The Corporation may develop and issue to Regulated Persons such guidelines, notices, bulletins, interpretations, procedures, practices and other communications relevant to the By-laws and Rules or the business and activities of a Regulated Person or any other person subject to the jurisdiction of the Corporation to supplement or assist in the interpretation, application of and compliance with the By-laws and Rules.

**Section 13.5 Continuing Jurisdiction and Discipline and Enforcement under the Rules**

- (1) Any Regulated Person, in accordance with the provision of any Rule, shall remain subject to the jurisdiction of the Corporation in respect of any action or matter that occurred while that person was subject to the By-laws and Rules for such period of time and under such additional conditions as may be provided in the Rules.
- (2) The Rules shall provide the practice and procedure to be followed by the Corporation in connection with the commencement and conduct of a disciplinary hearing and shall establish the penalties or remedies that may be imposed by the Corporation on a Regulated Person for failure to comply with any Rules.

**Section 13.6 Exchange of Information, Agreements**

- (1) The Corporation may provide assistance, including the collection and sharing of information and other forms of assistance for the purpose of market surveillance, investigations, enforcement litigation, investor protection and compensation and for any other regulatory purpose to any exchange, self-regulatory organization, securities regulator, financial intelligence or law enforcement agency or authority, or investor protection or compensation fund, whether domestic or foreign.
- (2) The Corporation may enter into an agreement with any entity described in subsection (1) to collect and exchange information and to provide for any other forms of mutual assistance for the purpose of market surveillance, investigation, enforcement litigation, investor protection and compensation and for any other regulatory purpose.

**ARTICLE 14  
NO ACTIONS**

**Section 14.1 No Actions Against the Corporation**

No Regulated Person (including in all cases a Member whose rights and privileges have been suspended or terminated and a Member who has been expelled from the Corporation or whose membership has been forfeited) shall be entitled, subject to the rights of appeal granted under the By-laws or Rules, and further subject to any specific contractual rights that a Regulated Person may have in respect of a contract or other agreement to which the Corporation is a party, to commence or carry on any action or other proceedings against the Corporation or against the Board, or any Indemnified Party, or against the CIPF, its Board of Directors, any of its committees or its officers, employees and agents, in respect of any penalty imposed or any act or omission done or omitted under the provisions of and in compliance with or intended compliance with the provisions of the Letters Patent, By-laws or Rules and, in the case of the CIPF, done or omitted under the provisions of and in compliance with or intended compliance with the provisions of its letters patent, by-laws and policies, and in any case under any legislation or regulatory directives or agreements thereunder.

**Section 14.2 No Liabilities Arising in Respect of Entities in which Corporation Holds an Interest**

The Corporation shall not be liable to a Regulated Person (including in all cases a Member whose rights and privileges have been suspended or terminated and a member who has been expelled from the Corporation or whose membership has been forfeited) for any loss, damage, costs, expense, or other liability arising from any act or omission of any corporation or other entity in which the Corporation holds an equity or participating interest, including without limitation CDS and FundSERV Inc.

**ARTICLE 15  
USE OF NAME OR LOGO: LIABILITIES: CLAIMS**

**Section 15.1 Use of Name**

No Member shall use the name or logo of the Corporation on letterheads or in any circulars or other advertising or publicity matter, except to the extent and in such form as may be authorized by the Board. The Board may at its sole discretion require a Member to cease using the name or logo of the Corporation. Any use by a Member of the name or logo of the Corporation shall not have the effect of granting to the Member any proprietary interest in the Corporation's name or logo.

**Section 15.2 Liabilities**

No liability shall be incurred in the name of the Corporation by any Member, officer or committee without the authority of the Board.

**Section 15.3 Claims**

Whenever the membership of a Member ceases for any reason whatsoever, neither the former Member nor its heirs, executors, administrators, successors, assigns or other legal representatives, shall have any interest in or claim on or against the funds and property of the Corporation.

**ARTICLE 16  
TRANSITION PERIODS FOR BY-LAWS AND RULES**

**Section 16.1 Transition Periods for By-laws and Rules**

The Board may suspend or modify the application of any By-law or Rule, or provision thereof, for such period of time as it may determine in its sole discretion in order to facilitate the orderly application of and compliance with such By-law or Rule to or by all or any number or class of Regulated Persons. Any suspension or modification may be made either before or after the relevant By-law or Rule has become effective, and notice of the suspension or modification shall be given promptly to all Regulated Persons and to the securities regulatory authority in any jurisdiction where such By-law or Rule would otherwise be in effect. No suspension or modification shall unfairly discriminate between Members or other persons subject to the jurisdiction of the Corporation and no such modification shall impose on all or any of the Members or other persons subject to the jurisdiction of the Corporation a requirement that is more onerous or strict than the requirements of the By-law or Rule that is subject to the modification.

**ARTICLE 17  
AMENDMENT, REPEAL, ENACTMENT OF BY-LAWS**

**Section 17.1 By-laws**

The By-laws of the Corporation not embodied in the Letters Patent may be repealed or amended by By-law or a new By-law relating to the requirements of subsection 155(2) of the Act may be enacted, only by a majority of the Directors at a meeting of the Board and sanctioned by an affirmative vote of the Members as set out in this By-law at a meeting duly called for the purpose of considering such By-law, provided that the repeal or amendment of such By-law shall not be enforced or acted upon until the approval of the Minister of Industry has been obtained.

**ARTICLE 18  
AUDITORS**

**Section 18.1 Auditors**

The Members shall, at each annual meeting, appoint an auditor to audit the accounts of the Corporation for report to the Members at the next annual meeting. The auditors shall hold office until the next annual meeting provided that the Directors may fill any casual vacancy in the office of auditor. The Corporation's auditor may not be a Director, officer or employee of the Corporation or of an affiliated Corporation or associated with that Director, officer or employee. The remuneration of the auditor shall be fixed by the Board.

**ARTICLE 19  
BOOKS AND RECORDS**

**Section 19.1 Books and Records**

The Board shall see that all necessary books and records of the Corporation required by the By-laws of the Corporation or by any applicable statute or law are regularly and properly kept.

ENACTED this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

WITNESS the seal of the Corporation.

\_\_\_\_\_  
President

\_\_\_\_\_  
Secretary

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA****TRANSITION RULE NO. 1****MADE PURSUANT TO BY-LAW 13.1 OF THE CORPORATION****1.1 MARKETPLACE MEMBER REGULATION****1.1.1 General**

This Transition Rule No. 1.1 is made to adopt as Rules of the Corporation those rules and policies of Market Regulation Services Inc. ("RS") that are in force and effect immediately prior to June 1, 2008 that are identified in Transition Rule No. 1.1.2 ("UMIR") to be applicable to those persons defined as "Regulated Persons" under UMIR ("UMIR Regulated Persons") who are subject to the jurisdiction of the Corporation as Regulated Persons of the Corporation on and after such date, subject to (i) incidental conforming changes made to ensure consistency, and (ii) such further amendments to UMIR as may be made from time to time. The intention of this Transition Rule No. 1.1 is that marketplace regulation of UMIR Regulated Persons formerly conducted by RS is to continue by the Corporation in accordance with UMIR, unaffected and in the same manner and to the same degree in respect of such persons as Regulated Persons of the Corporation. Such UMIR Regulated Persons who obtain membership in the Corporation, execute and deliver regulation service or other related agreements, or are the subject of the terms of orders or approvals of the applicable securities regulatory authorities, or some combination thereof, are Regulated Persons of the Corporation and are subject to the jurisdiction of the Corporation, which is authorized to continue their regulation, subject to the terms of the Rules of the Corporation and amendments thereto, and such orders and approvals effective as of June 1, 2008 or to be lawfully made or imposed after such date.

**1.1.2 Adoption of UMIR**

The UMIR rules and policies set out in Schedule A.1 to this Transition Rule No. 1 are hereby made and adopted as Rules of the Corporation, subject to the terms and conditions provided for in this Transition Rule No. 1.1.

**1.1.3 Marketplace Directives and Guidance**

All Market Integrity Notices issued by RS to UMIR Regulated Persons in force and effect immediately prior to June 1, 2008, whether of general or specific application, are hereby adopted by the Corporation and shall be applicable to UMIR Regulated Persons who are subject to the jurisdiction of the Corporation, all with the intent that the Rules adopted under pursuant to Transition Rule No. 1.1.2 shall be interpreted and applied in accordance with such Market Integrity Notices to the extent they relate to a corresponding provision of UMIR.

**1.1.4 Continuing Jurisdiction of RS**

Nothing in this Transition Rule No. 1.1 affects the jurisdiction of RS to regulate UMIR Regulated Persons for conduct or activities prior to June 1, 2008 to the extent that such UMIR Regulated Persons are not subject to regulation by the Corporation, by virtue of refusal to attorn to the jurisdiction of the Corporation, dissolution of the UMIR Regulated Person, any transitional or permanent defect in the jurisdiction of the Corporation in respect of the UMIR Regulated Person, or otherwise.

**1.1.5 Interpretation**

In the case of any inconsistency between the provisions of this Transition Rule No. 1.1 and the provisions of the rules and policies set out in Schedule A.1, the terms of Transition Rule No. 1.1 shall prevail. In the event of any inconsistency between the provisions of this Transition Rule No. 1.1 and the terms of any regulation services agreement or undertaking made between the Corporation and a Regulated Person, the terms of such agreement or undertaking shall prevail. The interpretation and application of UMIR, including but not limited to the defined terms used therein, shall be separate from and made without reference to the Dealer Member Rules, as defined in Transition Rule No. 1.2.1, except to the extent that UMIR expressly provides otherwise. The interpretation of the Rules of the Corporation (including this Transition Rule No. 1.1) as determined by the Corporation shall be final and conclusive, subject to the provisions of UMIR Rule 11.3 and applicable legislation.

**1.2 DEALER MEMBER REGULATION****1.2.1 General**

This Transition Rule No. 1.2 is made to adopt as Rules of the Corporation those regulatory By-laws, Regulations, Forms and Policies of the Investment Dealers Association of Canada ("IDA") that are in force and effect immediately prior to June 1, 2008

that are identified in Transition Rule No. 1.2.2 (the "Dealer Member Rules") to be applicable to those persons defined as "Members" and "Approved Persons" under the Dealer Member Rules and other persons subject to the jurisdiction of the IDA (collectively, the "IDA Regulated Persons") who are subject to the jurisdiction of the Corporation as Regulated Persons of the Corporation on and after such date, subject to (i) incidental conforming changes to ensure consistency, and (ii) such further amendments to the Dealer Member Rules as may be made from time to time. The intention of this Transition Rule No. 1.2 is that dealer regulation of IDA Regulated Persons formerly conducted by the IDA is to continue by the Corporation in accordance with the Dealer Member Rules, unaffected and in the same manner and to the same degree in respect of such persons as Regulated Persons of the Corporation. Such IDA Regulated Persons who obtain membership in the Corporation, or are the subject of the terms of orders or approvals of the applicable securities regulatory authorities, or some combination thereof, are Regulated Persons of the Corporation and are subject to the jurisdiction of the Corporation, which is authorized to continue their regulation, subject to the terms of the Rules of the Corporation and amendments thereto, and such orders and approvals effective as of June 1, 2008 or to be lawfully made or imposed after such date.

#### **1.2.2 Adoption of Dealer Member Rules**

The Dealer Member Rules set out in Schedule B.1 to this Transition Rule No. 1 are hereby made and adopted as Rules of the Corporation, subject to the terms and conditions provided for in this Transition Rule No. 1.2.

#### **1.2.3 Dealer Member Directives and Guidance**

All regulatory notices, bulletins, directives and guidance provided by the IDA to IDA Regulated Persons in force and effect immediately prior to June 1, 2008, whether of general or specific application, and including without limitation those forms of notices, bulletins, directives and guidance listed on Schedule B.2 to this Transition Rule No. 1.2, are hereby adopted by the Corporation and shall be applicable to IDA Regulated Persons who are subject to the jurisdiction of the Corporation, all with the intent that the Rules adopted pursuant to Transition Rule No. 1.2.2 shall be interpreted and applied in accordance with such notices, bulletins, directives and guidance to the extent they relate to a corresponding Dealer Member Rule.

#### **1.2.4 Continuing Jurisdiction of the IDA**

Nothing in this Transition Rule No. 1.2 affects the jurisdiction of the IDA to regulate IDA Regulated Persons for conduct or activities prior to June 1, 2008 to the extent that such IDA Regulated Persons are not subject to regulation by the Corporation, by virtue of refusal to attorn to the jurisdiction of the Corporation, dissolution of the IDA Regulated Person, any transitional or permanent defect in the jurisdiction of the Corporation in respect of the IDA Regulated Person, or otherwise.

#### **1.2.5 Interpretation**

In the case of any inconsistency between the provisions of this Transition Rule No. 1.2 and the provisions of the rules and requirements set out in Schedule B.1, the terms of this Transition Rule No. 1.2 shall prevail. In the event of any inconsistency between the provisions of this Transition Rule No. 1.2 and the terms of any undertaking made between the Corporation and a Regulated Person, the terms of such undertaking shall prevail. The interpretation and application of the Dealer Member Rules, including but not limited to the defined terms used therein, shall be separate from and made without reference to UMIR, except to the extent the Dealer Member Rules expressly provide otherwise. The interpretation of the Rules of the Corporation (including this Transition Rule No. 1.2) as determined by the Corporation shall be final and conclusive, subject to the provisions of Dealer Member Rule 33 and applicable legislation.

### **1.3 HEARING COMMITTEES AND PANELS**

#### **1.3.1 General**

This Transition Rule No. 1.3 is made to provide for the manner and basis on which Hearing Committees and Hearing Panels of the Corporation shall be constituted. The intention of this Transition Rule No. 1.3 is that such Hearing Committees and Hearing Panels shall be constituted in the same manner with respect to any Enforcement Proceeding or Review Proceeding, as defined in Schedule C.1 to this Transition Rule No. 1, involving any Regulated Persons of the Corporation, whether such Regulated Persons be subject to UMIR or the Dealer Member Rules.

#### **1.3.2 Hearing Committee and Hearing Panel Rules**

The rules set out in Schedule C.1 to this Transition Rule No. 1 are hereby made as Rules of the Corporation, subject to the terms and conditions provided for in Transition Rule No. 1.

**SCHEDULE A.1**

**TO TRANSITION RULE NO. 1**

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**SCHEDULE B.1**

**TO TRANSITION RULE NO. 1**

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**SCHEDULE B.2**  
**TO TRANSITION RULE NO. 1**

Bulletins  
Member Regulation Notices  
Compliance Interpretation Bulletins  
Financial Compliance Notices

**SCHEDULE C.1**

**TO TRANSITION RULE NO. 1**

**HEARING COMMITTEES AND HEARING PANELS RULE**

**Part A. DEFINITIONS**

**1.1. In this Rule:**

**"Dealer Member Rules"** means the Dealer Member Rules adopted pursuant to Transition Rule No. 1.2.2 of the Corporation.

**"Enforcement Proceeding"** means a disciplinary hearing, a settlement hearing, and an expedited hearing under UMIR and Rule 20.30, Rule 20.33, Rule 20.34, Rule 20.42, and Rule 20.43 of the Dealer Member Rules, and includes any procedural applications or motions in relation to these proceedings.

**"Industry Member"** means an individual who is:

- (a) a current or former director, officer, partner or employee of a Member or Access Person;
- (b) a current or former director, officer, partner or employee of a former Member or former Access Person; or
- (c) any other individual that is suitable and qualified, in accordance with the factors enumerated in Subsection 1.3(1) of this Rule.

**"National Hearing Coordinator"** means the secretary of the Corporation or such other officer, employee or agent of the Corporation designated in writing from time to time by the secretary to perform the functions assigned to the National Hearing Coordinator under the Rules of the Corporation or by the Board of Directors.

**"Practice and Procedure"** means the practice and procedure governing a hearing pursuant to UMIR or the Dealer Member Rules, as applicable.

**"Public Member"** means an individual who is a current or retired member of the Law Society of any Canadian province and is in good standing at the Law Society, except in Quebec, where the individual shall be a current or retired member of the Law Society of Quebec who is in good standing.

**"Review Proceeding"** means an approval application review proceeding, an early warning level 2 review proceeding, and an expedited hearing review under Rule 20.19, Rule 20.29, and Rule 20.47 of the Dealer Member Rules, and includes any procedural applications or motions in relation to these proceedings.

**"UMIR"** means the provisions of the Universal Market Integrity Rules adopted pursuant to Transition Rule No. 1.1.2 of the Corporation.

Terms used in this Hearing Committees and Hearing Panels Rule which are not defined herein shall have the same meanings as used or defined in whichever of the Dealer Member Rules or UMIR is applicable to such hearing or proceeding. In the case of any inconsistency between terms used or defined in this Hearing Committees and Hearing Panels Rule and terms used or defined in the Dealer Member Rules or UMIR, the meanings of such terms as used or defined in this Hearing Committees and Hearing Panels Rule shall prevail.

**PART B. HEARING COMMITTEES**

**1.2. Nomination of Candidates to the Hearing Committee**

- (1) From time to time, each District Council shall nominate individuals resident in the District to be members of the hearing committee of the respective District.
- (2) From time to time, each Marketplace Member shall nominate individuals resident in the District to be members of the hearing committee in their respective District provided the Marketplace Member is in that District:
  - (a) in the case of an Exchange or QTRS, recognized or exempt from recognition as an Exchange or QTRS in accordance with applicable securities legislation; and
  - (b) in the case of an ATS, registered in accordance with applicable securities legislation.

- (3) To the extent practicable, one-third of the individuals nominated by a District Council or a Marketplace Member in each District shall be Public Members.
- (4) To the extent practicable, two-thirds of the individuals nominated by a District Council or a Marketplace Member in each District shall be Industry Members.

**1.3. Appointment of Public and Industry Members to the Hearing Committee**

- (1) The Corporate Governance Committee shall review the suitability and qualifications of individuals nominated for membership on the hearing committee and in such review shall consider:
  - (a) general knowledge of business practices and securities legislation;
  - (b) experience;
  - (c) regulatory background;
  - (d) availability for hearings;
  - (e) reputation in the securities industry;
  - (f) ability to conduct hearings in either French or English; and
  - (g) Districts in which the individual would be entitled to serve.
- (2) The Corporate Governance Committee shall appoint to the hearing committee of each District those individuals that the Corporate Governance Committee considers to be suitable and qualified.
- (3) To the extent practicable, the Corporate Governance Committee shall ensure that one-third of the members of the hearing committee of each District shall be Public Members.
- (4) To the extent practicable, the Corporate Governance Committee shall ensure that two-thirds of the members of the hearing committee of each District shall be Industry Members.
- (5) No individual shall be eligible to be appointed as a Public Member or be permitted to continue to serve his or her term of appointment as a Public Member if she or he represents any parties to hearings under the Rules of the Corporation during the course of his or her appointment to a hearing committee.
- (6) Any hearing required by the present rules in Quebec shall be held in Quebec and the parties may present in French both verbally and in writing.

**1.4. Appointment of Hearing Committee Chairs**

- (1) For each District, the Corporate Governance Committee shall appoint a Public Member to serve as the chair of that District's hearing committee.
- (2) The chair of the hearing committee shall play an advisory role with respect to any legal, administrative or procedural issues or any issues regarding selection of Hearing Panel members raised by the National Hearing Coordinator.

**1.5. Appointment to and removal from Hearing Committees**

- (1) Each individual appointed to the hearing committee shall serve for a term of three years from the date of their appointment and each individual shall be eligible to be re-appointed to successive terms.
- (2) If a member of the hearing committee is serving on a Hearing Panel at the expiration of their three-year term and the individual is not re-appointed to the hearing committee, the term of that individual shall be automatically extended until the completion of the proceeding then before the Hearing Panel.
- (3) The Corporate Governance Committee may remove from the hearing committee prior to the expiration of their term any individual who:

- (a) ceases to be a resident of the District in respect of which the individual was appointed to serve on the hearing committee;
  - (b) is precluded from acting in such capacity by reason of any statutory requirement applicable to the jurisdiction in respect of which the individual was appointed to serve on the hearing committee;
  - (c) in the opinion of the Corporate Governance Committee, will have a reasonable apprehension of bias in respect of matters that may come before a Hearing Panel; or
  - (d) has otherwise ceased to be suitable and qualified to serve on the hearing committee.
- (4) If an individual is removed from the hearing committee in accordance with subsection (3), the individual shall cease to qualify on any Hearing Panel on which the individual is serving at the time of their removal from the hearing committee.

**PART C. HEARING PANELS**

**1.6. Selection of Hearing Panel**

- (1) Any Enforcement Proceeding or Review Proceeding pursuant to Rules of the Corporation shall be heard by a Hearing Panel selected by the National Hearing Co-ordinator comprised of two Industry Members and one Public Member appointed to the hearing committee of the applicable District subject to subsection (2).
- (2) Hearing committee members may serve on Hearing Panels in other Districts where both chairs of the respective hearing committees consent. Notwithstanding the foregoing sentence or any other provision of the By-laws or Rules, Hearing Panels considering matters that relate to the conduct or activities in the Province of Quebec shall be composed mainly of persons residing in Quebec.
- (3) The National Hearing Coordinator shall not select any individual to be a member of any Hearing Panel with respect to any matter if the member:
  - (a) is an officer, partner, director, employee or an associate of, or is providing services to any person that is a subject of the hearing, order or interim order;
  - (b) has or had such other relationship to the person or matter that is a subject of the hearing, order or interim order as may give rise to a reasonable apprehension of bias;
  - (c) represents any parties to hearings under the Rules of the Corporation during his or her appointment to the hearing committee;
  - (d) is precluded from acting in such capacity by reason of any statutory requirement applicable to the District in which the hearing will be held;
  - (e) is the chair of the Hearing Committee of the District and the National Hearing Coordinator consulted the chair with respect to the selection of the Hearing Panel; or
  - (f) in connection with a hearing, order or interim order in respect of a Marketplace Rule for the purposes of the Rules of the Corporation, is precluded from acting in such capacity by reason of any requirement in the recognition order or registration under the applicable securities legislation of the relevant Marketplace.

**1.7. Chair of Hearing Panels**

- (1) A Public Member of a hearing committee shall be appointed to serve as the chair of the Hearing Panel.

**1.8. Provisions for Hearing Panels**

- (1) If a member (including the chair) of a Hearing Panel becomes incapacitated or is otherwise unable to serve on a Hearing Panel for whatever reason, the remaining member or members of the Hearing Panel may continue to deal with any matter and may make any order or decision that a Hearing Panel may make provided that the Hearing Panel may only continue to deal with any matter with the consent of all parties to the hearing.

- (2) Any order or decision of a Hearing Panel may be made by a majority of the members of the Hearing Panel. In the event that the Hearing Panel is comprised of two members the order or decision shall be unanimous.
- (3) If any member of a Hearing Panel is unable to continue to be a member of the Hearing Panel by reason of participation in a pre-hearing conference as authorized by the Practice and Procedure, the National Hearing Coordinator shall select a replacement for the individual such that the composition of the Hearing Panel shall be as provided in Rule 1.6.

**PART D. TRANSITIONAL PROVISIONS**

**1.9. Enforcement Proceedings**

- (1) Any Enforcement Proceeding commenced by the IDA or RS in accordance with their respective rules prior to June 1, 2008:
  - (a) in respect of which a hearing panel has been appointed, shall be continued by the Corporation on behalf of the IDA or RS, as applicable, and shall proceed in accordance with the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA or RS, as applicable, in effect and applicable to such Enforcement Proceeding at the time it was commenced; and
  - (b) in respect of which a hearing panel has not been appointed, shall be continued by the Corporation on behalf of the IDA or RS, as applicable, and shall proceed in accordance with the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA or RS, as applicable, in effect and applicable to such Enforcement Proceeding at the time it was commenced, except that despite any provision of the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA or RS, as applicable, in effect and applicable to such Enforcement Proceeding, this Rule shall apply to the appointment of the hearing panel.
- (2) Any Enforcement Proceeding commenced on or after June 1, 2008 by the Corporation on behalf of the IDA or RS with respect to compliance with the by-laws, decisions, directions, policies, regulations, rules and rulings of the IDA or RS, as applicable, relating to conduct that occurred prior to June 1, 2008 shall be undertaken in accordance with the Practice and Procedure in effect on the date of the commencement of the Enforcement Proceeding notwithstanding that the conduct which is the subject of the Enforcement Proceeding occurred prior to June 1, 2008. However, in any such proceeding the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA or RS, as applicable, in effect and applicable to such conduct at the time it occurred shall apply to the extent that it is not inconsistent with the Practice and Procedure in effect at the time the Enforcement Proceeding is commenced.

**1.10. Review Proceedings**

- (1) Any Review Proceeding that has been requested prior to June 1, 2008 by the IDA, a Member, an Approved Person, an Applicant, or other person subject to the jurisdiction of the IDA in accordance with the rules of the IDA in effect and applicable at the time of the request:
  - (a) in respect of which a hearing panel has been appointed, shall be continued by the Corporation on behalf of the IDA and shall proceed in accordance with the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA in effect and applicable to such Review Proceeding at the time it was commenced; and
  - (b) in respect of which a hearing panel has not been appointed, shall be continued by the Corporation on behalf of the IDA and shall proceed in accordance with the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA in effect and applicable to such Review Proceeding at the time it was commenced, except that despite any provision of the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA in effect and applicable to such Review Proceeding, this Rule shall apply to the appointment of the hearing panel.
- (2) Any Review Proceeding that has been requested on or after June 1, 2008 shall be undertaken in accordance with the Practice and Procedure in effect on the date of the request of the Review Proceeding notwithstanding that the conduct or application which is the subject of the Review Proceeding occurred prior to June 1, 2008.

**1.11 Continuing Membership of Hearing Committees**

Each individual who on May 31, 2008 was a member of a hearing committee of the IDA or RS shall be automatically deemed to be a member of the hearing committee of the Corporation and the term of each such individual as a member of the hearing committee of the Corporation shall expire on the date that his or her term as a member of the hearing committee of the IDA or RS would have expired.

**IN THE MATTER OF  
THE SECURITIES ACT, R.S.O. 1990, CHAPTER S.5, AS AMENDED (the Act)**

**AND**

**IN THE MATTER OF  
THE INVESTMENT DEALERS ASSOCIATION OF CANADA**

**VARIATION AND RESTATEMENT**

**(Subsections 21.1(1) and 144(1) of the Act)**

The Ontario Securities Commission (the Commission) issued an order on October 27, 1995 recognizing the Investment Dealers Association of Canada (IDA) as a self-regulatory organization pursuant to section 21.1 of the Act (Previous Order);

Effective June 1, 2008, the IDA will combine its operations (the Combination) with Market Regulation Services Inc. (RS) to become the Investment Industry Regulatory Organization of Canada (IIROC);

IIROC will be a self-regulatory organization recognized by the British Columbia Securities Commission, the Alberta Securities Commission, the Saskatchewan Financial Services Commission, the Manitoba Securities Commission, the Ontario Securities Commission, the Autorité des marchés financiers, the Financial Services Regulation Division, Department of Government Services, Consumer & Commercial Affairs Branch (Newfoundland and Labrador), Nova Scotia Securities Commission, the New Brunswick Securities Commission and the Securities Office, Consumer, Corporate and Insurance Securities Division, Office of Attorney General (Prince Edward Island);

The IDA has applied to the Commission to vary and restate the Previous Order in order to reflect that, subsequent to the Combination, the IDA will continue to operate as a self-regulatory organization for a period of time to perform limited complaint handling, investigation and enforcement functions;

The Commission has determined that it is not prejudicial to the public interest to issue an order that varies and restates the Previous Order to reflect the more limited functions of the IDA subsequent to the Combination;

It is ordered, pursuant to subsection 144(1) of the Act, that the Previous Order be varied and restated as follows, without prejudice to the effectiveness of any lawful exercise of authority under the Previous Order prior to the date of this variation and restatement:

**IN THE MATTER OF  
THE SECURITIES ACT, R.S.O. 1990, CHAPTER S.5, AS AMENDED (the Act)**

**AND**

**IN THE MATTER OF  
THE INVESTMENT DEALERS ASSOCIATION OF CANADA**

**RECOGNITION ORDER**

**(Section 21.1)**

On October 27, 1995, the Commission recognized the Investment Dealers Association of Canada (IDA) as a self-regulatory organization;

The IDA and Market Regulation Services Inc. have combined (the Combination) their operations into the Investment Industry Regulatory Organization of Canada (IIROC), to be effective on June 1, 2008 (the Effective Date);

Subsequent to the Combination, for complaint handling, investigations and disciplinary actions, the IDA will continue to regulate and maintain its authority over persons subject to its authority prior to the Effective Date (collectively, Persons) for conduct occurring prior to the Effective Date, for up to five years following the Effective Date;

The IDA and IIROC have entered into an agreement (the Agreement) where the IDA has retained IIROC as its agent to perform complaint handling, investigation and enforcement functions on behalf of the IDA for the conduct of Persons occurring prior to the Effective Date, and to provide all administrative services in connection with these functions and the continuance of the IDA.

On April 23, 2008, the board of directors of the IDA adopted amendments to its by-law to be effective immediately prior to the Effective Date (IDA By-law Amendments) to reflect the fact that the governance and administration of the IDA in its continued form will be by a board of directors that will be the same as the board of directors of IIROC and to make other consequential amendments following from the creation of IIROC.

The IDA has made the following representations:

1. The IDA will, among other things:
  - (i) maintain its existence and recognition as necessary to ensure its continuing authority over Persons and their conduct occurring prior to the Effective Date;
  - (ii) provide confirmation and further assurances to third parties, including tribunals and appeal bodies, of its continuing authority over Persons and their conduct occurring prior to the Effective Date;
  - (iii) subject to applicable law, provide to IIROC all relevant information in its possession that it receives from third parties in connection with the conduct of Persons occurring prior to the Effective Date;
  - (iv) to the extent required for the handling of complaints regarding or the investigation of the conduct of Persons occurring prior to the Effective Date, request information from third parties under information-sharing arrangements to which the IDA is a party; and
  - (v) perform all further acts and provide all further assurances necessary to maintain and confirm its continuing authority over Persons and their conduct occurring prior to the Effective Date.
2. Under the Agreement, IIROC will, among other things:
  - (i) carry out on the IDA's behalf all complaint handling, investigative and enforcement activities relating to the conduct of Persons occurring prior to the Effective Date;
  - (ii) maintain sufficient personnel, technological and other resources to perform IIROC's obligations under the Agreement in a timely and diligent manner;
  - (iii) comply with, or facilitate the IDA's compliance with, the terms of any information-sharing agreements where the IDA receives information relating to the conduct of Persons occurring prior to the Effective Date; and
  - (iv) provide all funding required for the performance of activities of the IDA relating to the conduct of Persons occurring prior to the Effective Date.
3. All hearing committees and hearing panels for the purposes of any proceedings by the IDA will be constituted in accordance with IIROC Transition Rule No. 1 and Schedule C-1 *Hearing Committees and Hearing Panels Rule*.

Based on the representations and application, including the IDA By-law Amendments, made by the IDA to the Commission, the Commission is satisfied that continuing to recognize the IDA would not be prejudicial to the public interest.

The Commission hereby amends the IDA's recognition as a self-regulatory organization so that the recognition pursuant to section 21.1 continues with respect to the IDA, subject to the terms and conditions set out in Schedule A.

Dated October 27, 1995, as amended on May 16, 2008, effective June 1, 2008.

"W. David Wilson"

"James E.A. Turner"

**SCHEDULE A**

**TERMS AND CONDITIONS**

**1. CORPORATE GOVERNANCE**

The IDA must have the same board of directors as IIROC.

**2. CAPACITY TO PERFORM REGULATORY FUNCTIONS**

(a) The IDA must enter into the Agreement with IIROC under which IIROC must act as the IDA's agent to perform regulation services, including complaint handling, investigation and enforcement related to the conduct of persons subject to its authority occurring prior to the Effective Date and all administrative services in connection therewith and the continuance of the IDA.

(b) Prior Commission approval is required for any changes to the Agreement.

**3. INFORMATION SHARING**

The IDA or its agents must share information and must otherwise co-operate with the Commission and its staff, other Canadian securities regulatory authorities, exchanges, other regulation services providers, other recognized self-regulatory organizations, clearing agencies, and investor protection or compensation funds.

**4. ADDITIONAL INFORMATION & COMPLIANCE WITH OVERSIGHT**

The IDA or its agents must provide the Commission any additional information the Commission may require from time to time.

**5. USE OF FINES AND SETTLEMENTS**

All fines collected by the IDA, or by IIROC on behalf of the IDA, and all payments made under settlement agreements entered into with the IDA, or with IIROC on behalf of the IDA, must be used in accordance with the terms and conditions set out in the IIROC recognition order effective June 1, 2008, as amended from time to time.

**IN THE MATTER OF  
THE SECURITIES ACT, R.S.O. 1990, CHAPTER S.5, AS AMENDED (the Act)**

**AND**

**IN THE MATTER OF  
MARKET REGULATION SERVICES INC.**

**VARIATION AND RESTATEMENT**

**(Subsections 21.1(1) and 144(1) of the Act)**

The Ontario Securities Commission (the Commission) issued an order on January 29, 2002 recognizing Market Regulation Services Inc. (RS) as a self-regulatory organization pursuant to section 21.1 of the Act (Previous Order);

Effective June 1, 2008, RS will combine its operations (the Combination) with the Investment Dealers Association of Canada (IDA) to become the Investment Industry Regulatory Organization of Canada (IIROC);

IIROC will be a self-regulatory organization recognized by the British Columbia Securities Commission, the Alberta Securities Commission, the Saskatchewan Financial Services Commission, the Manitoba Securities Commission, the Ontario Securities Commission, the Autorité des marchés financiers, the Financial Services Regulation Division, Department of Government Services, Consumer & Commercial Affairs Branch (Newfoundland and Labrador), Nova Scotia Securities Commission, the New Brunswick Securities Commission and the Securities Office, Consumer, Corporate and Insurance Services Division, Office of the Attorney General (Prince Edward Island);

RS has applied to the Commission to vary and restate the Previous Order in order to reflect that, subsequent to the Combination, RS will continue to operate as a self-regulatory organization for a period of time to perform limited complaint handling, investigation and enforcement functions;

The Commission has determined that it is not prejudicial to the public interest to issue an order that varies and restates the Previous Order to reflect the more limited functions of RS subsequent to the Combination;

It is ordered, pursuant to subsection 144(1) of the Act, that the Previous Order be varied and restated as follows, without prejudice to the effectiveness of any lawful exercise of authority under the Previous Order prior to the date of this variation and restatement:

**IN THE MATTER OF  
THE SECURITIES ACT, R.S.O. 1990, CHAPTER S.5, AS AMENDED (the Act)**

**AND**

**IN THE MATTER OF  
MARKET REGULATION SERVICES INC.**

**RECOGNITION ORDER**

**(Section 21.1)**

On January 29, 2002, the Commission recognized Market Regulation Services Inc. (RS) as a self-regulatory organization;

RS is a regulation services provider under National Instrument 21-101 *Marketplace Operation Rule* and National Instrument 23-101 *Trading Rules* (together the ATS Rules) and regulates its members and marketplace participants pursuant to the Universal Market Integrity Rules (UMIR);

RS and the Investment Dealers Association of Canada have combined (the Combination) their operations into the Investment Industry Regulatory Organization of Canada (IIROC), to be effective on June 1, 2008 (the Effective Date);

Subsequent to the Combination, for complaint handling, investigations and disciplinary actions, RS will continue to regulate and maintain its authority over persons subject to its authority prior to the Effective Date (collectively, Persons) for conduct occurring prior to the Effective Date, for up to five years following the Effective Date;

RS and IIROC have entered into an agreement (the Agreement) where RS has retained IIROC as its agent to perform complaint handling, investigation and enforcement functions on behalf of RS for the conduct of Persons occurring prior to the Effective Date, and to provide all administrative services in connection with these functions and the continuance of RS;

On April 22, 2008, the board of directors of RS adopted amendments to its by-law to be effective immediately prior to the Effective Date (RS By-law Amendments) to reflect the fact that the governance and administration of RS in its continued form will be by a board of directors that will be the same as the board of directors of IIROC and to make other consequential amendments following from the creation of IIROC.

RS has made the following representations:

1. RS will, among other things:
  - (i) maintain its existence and recognition as necessary to ensure its continuing authority over Persons and their conduct occurring prior to the Effective Date;
  - (ii) provide confirmation and further assurances to third parties, including tribunals and appeal bodies, of its continuing authority over Persons and their conduct occurring prior to the Effective Date;
  - (iii) subject to applicable law, provide to IIROC all relevant information in its possession that it receives from third parties in connection with the conduct of Persons occurring prior to the Effective Date;
  - (iv) to the extent required for the handling of complaints regarding or the investigation of the conduct of Persons occurring prior to the Effective Date, request information from third parties under information-sharing arrangements to which RS is a party; and
  - (v) perform all further acts and provide all further assurances necessary to maintain and confirm its continuing authority over Persons and their conduct occurring prior to the Effective Date.
2. Under the Agreement, IIROC will, among other things:
  - (i) carry out on RS's behalf all complaint handling, investigative and enforcement activities relating to the conduct of Persons occurring prior to the Effective Date;
  - (ii) maintain sufficient personnel, technological and other resources to perform IIROC's obligations under the Agreement in a timely and diligent manner;
  - (iii) comply with, or facilitate RS's compliance with, the terms of any information-sharing agreements where RS receives information relating to the conduct of Persons occurring prior to the Effective Date; and
  - (iv) provide all funding required for the performance of activities of RS relating to the conduct of Persons occurring prior to the Effective Date.
3. All hearing committees and hearing panels for the purposes of any proceedings by RS will be constituted in accordance with IIROC Transition Rule No. 1 and Schedule C-1 *Hearing Committees and Hearing Panels Rule*.

Based on the representations and application, including the RS By-law Amendments, made by RS to the Commission, the Commission is satisfied that continuing to recognize RS would not be prejudicial to the public interest.

The Commission hereby amends RS's recognition as a self-regulatory organization so that the recognition pursuant to section 21.1 continues with respect to RS, subject to the terms and conditions set out in Schedule A.

Dated January 29, 2002, as amended on May 16, 2008, effective June 1, 2008.

"W. David Wilson"

"James E.A. Turner"

**SCHEDULE A**

**TERMS AND CONDITIONS**

**1. CORPORATE GOVERNANCE**

RS must have the same board of directors as IIROC.

**2. CAPACITY TO PERFORM REGULATORY FUNCTIONS**

- (a) RS must enter into the Agreement with IIROC under which IIROC must act as RS's agent to perform regulation services, including complaint handling, investigation and enforcement related to the conduct of persons subject to its authority occurring prior to the Effective Date and all administrative services in connection therewith and the continuance of RS.
- (b) Prior Commission approval is required for any changes to the Agreement.

**3. INFORMATION SHARING**

RS or its agents must share information and must otherwise co-operate with the Commission and its staff, other Canadian securities regulatory authorities, exchanges, other regulation services providers, other recognized self-regulatory organizations, clearing agencies, and investor protection or compensation funds.

**4. ADDITIONAL INFORMATION & COMPLIANCE WITH OVERSIGHT**

RS or its agents must provide the Commission any additional information the Commission may require from time to time.

**5. USE OF FINES AND SETTLEMENTS**

All fines collected by RS, or by IIROC on behalf of RS, and all payments made under settlement agreements entered into with RS, or with IIROC on behalf of RS, must be used in accordance with the terms and conditions set out in the IIROC recognition order effective June 1, 2008, as amended from time to time.

IN THE MATTER OF THE SECURITIES ACT, R.S.O. 1990, CHAPTER S.5, AS AMENDED  
(the Act)

AND

IN THE MATTER OF  
INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA (IIROC)

VARIATION OF DECISION  
(Subsection 144(1) of the Act)

**Background**

The Commission made a decision on June 29, 2005 under subsection 21.1(4) of the Act (the Original Decision) to require Market Regulation Services (RS):

- (A) to waive the requirement for a subscriber of an alternative trading system (ATS) to execute the RS confirmation and representation forms and the acknowledgments described in section 3.6 of the Regulation Services Agreements (RSA) if
- (i) the subscriber signs a release made and executed in favour of, and delivered to, RS in the form of the following:
- RS, its directors, officers, employees, agents and any other person acting under its authority shall not be liable to the Subscriber or any of its Regulated Persons (as defined in the UMIR) for any loss, damage, cost, expense or other liability or claim arising from any act or omission, in good faith, in connection with RS's performance of services as a Regulation Services Provider (as defined in NI 21-101); or
- (ii) the ATS has executed an indemnity that is consistent with the language in section 11.10 of UMIR and has taken steps, satisfactory to RS acting reasonably, to ensure that it will be able to satisfy the indemnity, and
- (B) to continue to monitor and enforce its rules and requirements against subscribers to an ATS with which it has agreed to act as the RSP and against their directors, officers and employees.

IIROC has applied to the Commission for an Order varying the Original Decision.

**Representations**

The Applicant has made the following representations.

1. On June 1, 2008, RS combined with the Investment Dealers Association of Canada (IDA) to become IIROC.
2. Like RS, IIROC is a regulation services provider (RSP) under National Instrument 21-101 *Marketplace Operation* and National Instrument 23-101 *Trading Rules* (the ATS Rules). It has been recognized by the British Columbia Securities Commission, the Alberta Securities Commission, the Saskatchewan Financial Services Commission, the Manitoba Securities Commission, the Ontario Securities Commission, the Autorité des marchés financiers, Newfoundland and Labrador, Securities Division, Department of Government Services and Lands, Nova Scotia Securities Commission and the New Brunswick Securities Commission.
3. Because of the combination with the IDA, IIROC has requested that the Commission vary the Original Decision to reflect its new name and the securities regulatory authorities that have recognized it as a self-regulatory organization or self-regulatory body.

**Commission Decision**

The Commission is satisfied that to do so would not be prejudicial to the public interest;

The Commission orders that the Original Decision be varied as follows:

1. Each reference to Market Regulation Services Inc. be deleted and replaced with a reference to Investment Industry Regulatory Organization of Canada;
2. Each reference to RS be deleted and replaced with a reference to IIROC;

3. Paragraph 3 be deleted and replaced by the following:

“IIROC is an RSP under the ATS Rules and has been recognized by the British Columbia Securities Commission, the Alberta Securities Commission, the Saskatchewan Financial Services Commission (Securities Division), the Manitoba Securities Commission, the Ontario Securities Commission, the Autorité des marchés financiers, Newfoundland and Labrador, Securities Division, Department of Government Services and Lands, Nova Scotia Securities Commission and the New Brunswick Securities Commission.”

4. Paragraphs 5 and 6 be deleted.

Dated this 16th day of May, 2008.

“W. David Wilson”

“James E.A. Turner”

IN THE MATTER OF  
THE SECURITIES ACT, R.S.O. 1990,  
CHAPTER S.5, AS AMENDED (the Act)

AND

IN THE MATTER OF  
TSX GROUP INC. AND TSX INC.

ORDER  
(Section 144 of the Act)

**WHEREAS** the Commission issued an order dated April 3, 2000, varied on January 29, 2002, September 3, 2002, August 12, 2005, December 16, 2005 and August 10, 2006 granting and continuing the recognition of TSX Group Inc. and TSX Inc. as a stock exchange pursuant to section 21 of the Act (the Recognition Order);

**AND WHEREAS** the terms and conditions attached as Schedule A to the Recognition Order reference Market Regulation Services Inc. (RS Inc.) in Item 13;

**AND WHEREAS** effective June 1, 2008, RS Inc. will combine its operations with the Investment Dealers Association of Canada to form the Investment Industry Regulatory Organization of Canada (IIROC);

**AND WHEREAS** the Commission is of the opinion that it is not prejudicial to the public interest to vary the Recognition Order to refer to IIROC;

**IT IS ORDERED** pursuant to section 144 of the Act that the Recognition Order be varied as follows:

1. Item 13 of Schedule A of the Recognition Order is repealed and replaced by the following:

**“13. REGULATION**

- (a) TSX shall continue to retain the Investment Industry Regulatory Organization of Canada (IIROC) as an RSP to provide certain regulation services which have been approved by the Commission. TSX shall provide to the Commission, on an annual basis, a list outlining the regulation services provided by IIROC and the regulation services performed by TSX. All amendments to those listed services are subject to the prior approval of the Commission.
- (b) In providing the regulation services, as set out in the agreement between IIROC and TSX (Regulation Services Agreement), IIROC provides certain regulation services to TSX pursuant to a delegation of TSX's authority in accordance with Section 13.0.8(4) of the Toronto Stock Exchange Act and will be entitled to exercise all the authority of TSX with respect to the administration and enforcement of certain market integrity rules and other related rules, policies and by-laws.
- (c) TSX shall provide the Commission with an annual report with such information regarding its affairs as may be requested from time to time. The annual report shall be in such form as may be specified by the Commission from time to time.
- (d) TSX shall continue to perform all other regulation functions not performed by IIROC. TSX shall not perform such regulation functions through any other party, including its affiliates or associates, without prior Commission approval. For greater certainty, any outsourcing of a business function that is done in accordance with paragraph 23 does not contravene this paragraph.
- (e) Management of TSX (including the Chief Executive Officer) shall at least annually assess the performance by IIROC of its regulation functions and report thereon to the Board of TSX, together with any recommendations for improvements. TSX shall provide the Commission with copies of such reports and shall advise the Commission of any proposed actions arising therefrom.”

2. Item 15(a) of Schedule A of the Recognition Order is repealed and replaced by the following:

**“15. Purpose of Rules**

- (a) TSX shall, subject to the terms and conditions of this Recognition Order and the jurisdiction and oversight of the Commission in accordance with Ontario securities laws, through IIROC and otherwise, establish such

rules, policies and other similar instruments (“Rules”) that are necessary or appropriate to govern and regulate all aspects of its business and affairs.”

3. Item 18 of Schedule A of the Recognition Order is repealed and replaced by the following:

**“18. Sanction Rules**

TSX shall ensure, through IIROC and otherwise, that its Participating Organizations and its listed issuers are appropriately sanctioned for violations of the Rules. In addition, TSX will provide notice to the Commission of any violations of securities legislation of which it becomes aware in the ordinary course operations of its business.”

4. Item 21 of Schedule A of the Recognition Order is repealed and replaced by the following:

**“21. Listed Company Rules**

TSX shall ensure, through IIROC and otherwise, that it has appropriate review procedures in place to monitor and enforce issuer compliance with the Rules.”

5. Section 3.5 of Appendix I of the Recognition Order is repealed and replaced by the following:

“3.5 TSX shall use its best efforts to instruct senior management and relevant staff at TSX, and relevant senior management and staff at IIROC, in order that they are alerted to, and are able to identify, Conflicts of Interest which may exist or arise in the course of the performance of their functions. Without limiting the generality of the foregoing:

3.5.1. TSX shall provide instruction that any matter concerning TSX Group that is brought to the attention of staff at TSX must be immediately brought to the attention of the Committee Secretary.

3.5.2. TSX shall maintain a list in an electronic format, to be updated regularly and in any event at least monthly and reviewed and approved by the Conflicts Committee at least monthly, of all Competitors that are TSX-listed issuers, and shall promptly after the above-noted approval by the Conflicts Committee provide the current list to managers at TSX and IIROC who supervise departments that (i) review continuous disclosure; (ii) review requests/applications for exemptive relief; (iii) perform timely disclosure and monitoring functions relating to TSX-listed issuers; and (iv) otherwise perform tasks and/or make decisions of a discretionary nature. In maintaining this list, TSX shall ensure that senior executives in the issuer services division of TSX regularly prepare and review and update the list and provide it promptly to the Conflicts Committee.

3.5.3. TSX shall provide instruction to staff at TSX that any initial listing or continued listing matter or a complaint of a Competitor or of any TSX-listed issuer or listing applicant that asserts that it is a Competitor must be immediately brought to the attention of the Committee Secretary.

3.5.4. TSX shall provide to staff who review initial listing applications and to senior executives in the issuer services division of TSX a summary of the types of businesses undertaken to a significant degree by TSX Group or its affiliates and shall update the list as these businesses change, in order that initial listings staff and senior executives in the issuer services division of TSX may recognize a Competitor.”

6. Section 4 of Appendix I of the Recognition Order is repealed and replaced by the following:

**“4. Timely Disclosure and Monitoring of Trading**

4.1 TSX shall use its best efforts to ensure that IIROC at all times is provided with the current list of the TSX-listed issuers that are Competitors.”

Dated this 16th day of May, 2008, effective on June 1, 2008.

“W. David Wilson”

“James E.A. Turner”

IN THE MATTER OF  
THE SECURITIES ACT, R.S.O. 1990,  
CHAPTER S.5, AS AMENDED (the Act)

AND

IN THE MATTER OF  
CANADIAN TRADING AND QUOTATION SYSTEM INC.

ORDER  
(Section 144 of the Act)

**WHEREAS** the Commission issued an order dated May 7, 2004, as varied on September 9, 2005 and June 13, 2006 granting the recognition of the Canadian Trading and Quotation System Inc. (CNQ) as a stock exchange pursuant to section 21 of the Act (the Recognition Order);

**AND WHEREAS** the terms and conditions attached as Schedule A to the Recognition Order reference Market Regulation Services Inc. (RS Inc.) in Item 6;

**AND WHEREAS** effective June 1, 2008, RS Inc. will combine its operations with the Investment Dealers Association of Canada to form the Investment Industry Regulatory Organization of Canada (IIROC);

**AND WHEREAS** the Commission is of the opinion that it is not prejudicial to the public interest to vary the Recognition Order to refer to IIROC;

**IT IS ORDERED** pursuant to section 144 of the Act that the Recognition Order be varied as follows:

1. Item 6 of Schedule A of the Recognition Order is repealed and replaced by the following:

**“6. REGULATION**

- (a) CNQ will maintain its ability to perform its regulation functions including setting requirements governing the conduct of CNQ Dealers and CNQ Issuers and disciplining CNQ Dealers and CNQ Issuers.
- (b) CNQ has retained and will continue to retain the Investment Industry Regulatory Organization of Canada (IIROC) as a regulation services provider to provide certain regulation services which have been approved by the Commission. CNQ will provide to the Commission, on an annual basis, a list outlining the regulation services performed by IIROC and the regulation services performed by CNQ. All amendments to those listed services are subject to the prior approval of the Commission.
- (c) CNQ will provide the Commission with an annual report with such information regarding its affairs as may be requested from time to time. The annual report will be in such form as may be specified by the Commission from time to time.
- (d) CNQ will perform all other regulation functions not performed by IIROC.
- (e) Management of CNQ (including the President and CEO) will at least annually assess the performance by IIROC of its regulation functions and report to the Board, together with any recommendations for improvements. CNQ will provide the Commission with copies of such reports and shall advise the Commission of any proposed actions arising therefrom.
- (f) CNQ shall provide the Commission with the information set out in Appendix A, as amended from time to time.”

2. Item 11 of the Recognition Order is repealed and replaced by the following:

**“11. DISCIPLINE RULES**

- (a) CNQ will ensure, through IIROC and otherwise, that any person or company subject to its regulation is appropriately disciplined for violations of securities legislation and the Rules.
- (b) CNQ will have general disciplinary and enforcement provisions in its Rules that will apply to any person or company subject to its regulation.”

**SRO Notices and Disciplinary Proceedings**

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Dated this 16th day of May, 2008, effective on June 1, 2008.

“W. David Wilson”

“James E.A. Turner”