The Ontario Securities Commission

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Securities Act of Ontario (R.S.O. 1990, c.S.5) and the
Commodity Futures Act of Ontario (R.S.O. 1990, c.C.20)

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Chapter 1

Notices / News Releases

1.1 Notices

1.1.1 Current Proceedings Before The Ontario Securities Commission

DECEMBER 13, 2002

CURRENT PROCEEDINGS

BEFORE

ONTARIO SECURITIES COMMISSION

- -

Unless otherwise indicated in the date column, all hearings will take place at the following location:

The Harry S. Bray Hearing Room
Ontario Securities Commission
Cadillac Fairview Tower
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20 Queen Street West
Toronto, Ontario
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Robert L. Shirriff, Q.C.	—	RLS

SCHEDULED OSC HEARINGS

DATE: TBA	**Patrick Fraser Kenyon Pierrepont Lett, Milehouse Investment Management Limited, Pierrepont Trading Inc., BMO Nesbitt Burns Inc.*, John Steven Hawkyard and John Craig Dunn**
	s. 127
	K. Manarin in attendance for Staff
	Panel: TBA
	* BMO settled Sept. 23/02
Date: TBA	**Offshore Marketing Alliance and Warren English**
	s. 127
	A. Clark in attendance for Staff
	Panel: TBA
December 19, 2002	**Robert Thomislav Adzija *et al* (Douglas Cross & Holmes)**
10:00 a.m.	s. 127
	T. Pratt in attendance for Staff
	Panel: RLS/HLM
December 19, 2002	**Diane A. Urquhart**
2:00 p.m.	s. 122
	I. Smith in attendance for Staff
	Panel: HLM/RWD
January 8, 9 & 10, 2003	**Jack Banks A.K.A. Jacques Benquesus and Larry Weltman**
10:00 a.m.	s. 127
	K. Manarin in attendance for Staff
	Panel: TBA

January 14, 2003	**Philip Services Corporation (Motion)**
10:00 a.m.	s. 127
	K. Manarin in attendance for Staff
	Panel: HIW
January 23, 2003	**Meridian Resources Inc. and Steven Baran**
10:00 a.m.	s. 127
	K. Manarin in attendance for Staff
	Panel: TBA
February 17 to 21, 2003 and February 25 to 28, 2003.	**Teodosio Vincent Pangia, Agostino Capista and Dallas/North Group Inc.**
	s. 127
All days10:00 a.m. Except, February 18, 2003 at 2:30 p.m.	Y. Chisholm in attendance for Staff
	Panel: TBA
March 24, 25, 26 & 27, 2003	**Edwards Securities Inc., David Gerald Edwards, David Frederick Johnson, Clansman 98 Investments**
10:00 a.m.	**Inc. and Douglas G. Murdock**
	s. 127
	A. Clark in attendance for Staff
	Panel: RLS/HPH
April 2003	**Phoenix Research and Trading Corporation, Ronald Mock and Stephen Duthie**
	s. 127
	T. Pratt in attendance for Staff
	Panel: TBA

ADJOURNED SINE DIE

Buckingham Securities Corporation, Lloyd Bruce, David Bromberg, Harold Seidel, Rampart Securities Inc., W.D. Latimer Co. Limited, Canaccord Capital Corporation, BMO Nesbitt Burns Inc., Bear, Stearns & Co. Inc., Dundee Securities Corporation, Caldwell Securities Limited and B2B Trust

DJL Capital Corp. and Dennis John Little

Dual Capital Management Limited, Warren Lawrence Wall, Shirley Joan Wall, DJL Capital Corp., Dennis John Little and Benjamin Emile Poirier

First Federal Capital (Canada) Corporation and Monte Morris Friesner

Global Privacy Management Trust and Robert Cranston

Ricardo Molinari, Ashley Cooper, Thomas Stevenson, Marshall Sone, Fred Elliott, Elliott Management Inc. and Amber Coast Resort Corporation

M.C.J.C. Holdings Inc. and Michael Cowpland

Philip Services Corporation

Rampart Securities Inc.

Robert Thomislav Adzija, Larry Allen Ayres, David Arthur Bending, Marlene Berry, Douglas Cross, Allan Joseph Dorsey, Allan Eizenga, Guy Fangeat, Richard Jules Fangeat, Michael Hersey, George Edward Holmes, Todd Michael Johnston, Michael Thomas Peter Kennelly, John Douglas Kirby, Ernest Kiss, Arthur Krick, Frank Alan Latam, Brian Lawrence, Luke John Mcgee, Ron Masschaele, John Newman, Randall Novak, Normand Riopelle, Robert Louis Rizzuto, And Michael Vaughan

S. B. McLaughlin

Southwest Securities

Livent Inc., Garth H. Drabinsky, Myron I. Gottlieb, Gordon Eckstein, Robert Topol

Chapter 2

Decisions, Orders and Rulings

2.1 Decisions

2.1.1 AXA - MRRS Decision

Headnote

Mutual Reliance Review System for Exemptive Relief Applications B relief from prospectus requirements granted in respect of certain trades in units of an employee savings fund made pursuant to a classic offering and a leveraged offering by French issuer, provided that all sales of such units pursuant to the leveraged offering be made through a registrant B relief from registration and prospectus requirements upon the redemption of such units for shares of the issuer B relief from the registration and prospectus requirements granted in respect of first trade of such shares where such trade is made through the facilities of a stock exchange outside of Canada B relief granted to the manager of the Fund from the adviser registration requirement.

Applicable Ontario Statutory Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 25, 53 and 74(1).

Applicable Ontario Regulations

Regulation made under the Securities Act, R.R.O. 1990, Reg. 1015 as am.

Applicable Rules

Multilateral Instrument 45-102 - Resale of Securities.
OSC Rule 45-503 - Trades to Employees, Executives and Consultants.
OSC Policy 4.8 - Non Resident Advisers.

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
BRITISH COLUMBIA, ALBERTA, MANITOBA,
ONTARIO, QUÉBEC, NEW BRUNSWICK,
NEWFOUNDLAND AND LABRADOR

AND

IN THE MATTER OF
THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF
AXA

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "**Decision Maker**") in each of British Columbia, Alberta, Manitoba, Ontario, Québec, New Brunswick and Newfoundland and Labrador (collectively, the "**Jurisdictions**") has received an application from AXA (the "**Filer**") for a decision under the securities legislation (the "**Legislation**") of the Jurisdictions that:

(i) the requirements contained in the Legislation to file and obtain a receipt for a preliminary prospectus and a prospectus (the "**Prospectus Requirements**") shall not apply to certain trades in units ("**Units**") of the AXA Actionnariat II Fund (the "**Classic Fund**") and the AXA Plan 2002 Global Fund (the "**Leveraged Fund**" and, together with the Classic Fund, the "**Funds**") made pursuant to the Employee Share Offering (as defined below) to or with Qualifying Employees (as defined below) resident in the Jurisdictions who elect to participate in the Employee Share Offering (the "**Canadian Participants**");

(ii) the requirements contained in the Legislation to be registered to trade in a security (the "**Registration Requirements**") shall not apply to trades in Units of the Classic Fund made pursuant to the Employee Share Offering to or with Canadian Participants;

(iii) the Registration and Prospectus Requirements shall not apply to the trades of ordinary shares of the Filer (the "**Shares**") by the Funds to Canadian Participants upon the redemption of Units by Canadian Participants, nor to the issuance of Units of the Classic Fund to holders of Leveraged Fund Units upon the transfer of the assets of the Leveraged Fund to the Classic Fund at the end of the Lock-Up Period (as defined below);

(iv) the Registration and Prospectus Requirements shall not apply to the first trade in any Shares acquired by Canadian Participants under the Employee Share Offering where such trade is made through the facilities of a stock exchange outside of Canada; and

(v) the manager of the Funds, AXA Gestion Intéressement (the "**Manager**") is exempt

from the requirements contained in the Legislation to be registered as an adviser (the "**Adviser Registration Requirements**") to the extent that its activities in relation to the Employee Share Offering require compliance with the Adviser Registration Requirements.

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "**System**"), the Commission des valeurs mobilières du Québec is the principal regulator for this application;

AND WHEREAS the Filer has represented to the Decision Makers that:

1. The Filer is a corporation formed under the laws of France. It is not and has no intention of becoming a reporting issuer (or equivalent) under the Legislation. The Shares are listed on the Paris Bourse and on the New York Stock Exchange (in the form of American Depositary Shares).

2. The Filer carries on business in Canada through the following affiliated companies: AXA Assurances Inc., AXA Canada Inc., AXA Insurance (Canada), AXA Pacific Insurance Company, Insurance Corporation of Newfoundland Limited, AXA Assistance Canada Inc., AXA Corporate Solutions, and AXA Corporate Solutions Assurance (the "**Canadian Affiliates**", together with the Filer and other affiliates of the Filer, the "**AXA Group**"). Each of the Canadian Affiliates is a direct or indirect controlled subsidiary of the Filer and is not, and has no intention of becoming, a reporting issuer (or equivalent) under the Legislation.

3. The Filer has established a worldwide stock purchase plan for employees of the AXA Group (the "**Employee Share Offering**") which is comprised of two subscription options: (i) an offering of Shares to be subscribed through the Classic Fund (the "**Classic Plan**"); and (ii) an offering of Shares to be subscribed through the Leveraged Fund (the "**Leveraged Plan**").

4. Only persons who are employees of a member of the AXA Group at the time of the Employee Share Offering (the "**Employees**"), or persons who have retired from an affiliate of the AXA Group and who continue to hold units in French investment funds (fonds communs de placement d'entreprise or "**FCPE**s") in connection with previous employee share offerings by the Filer (the "**Retired Employees**" and, together with the Employees, the "**Qualifying Employees**") will be invited to participate in the Employee Share Offering.

5. The Funds were established for the purposes of implementing the Employee Share Offering.

6. The Funds are not and have no intention of becoming reporting issuers under the Legislation.

7. The Funds are collective shareholding vehicles of a type commonly used in France for the conservation or custodianship of shares held by employee investors. Only Qualifying Employees will be allowed to hold Units of the Funds in an amount proportionate to their respective investments in the Funds.

8. Under French law, all Units of either Fund acquired in the Employee Share Offering will be subject to a hold period of approximately five years (the "**Lock-Up Period**"), subject to certain exceptions prescribed by French law (such as a release on death or termination of employment). At the end of the Lock-Up Period, a Canadian Participant may:

   (i) redeem Units: (a) in the Classic Fund in consideration for the underlying Shares or a cash payment equal to the then market value of the Shares, or (b) in the Leveraged Fund according to the Redemption Formula (described below), to be settled by delivery of the number of Shares equal to such amount or the cash equivalent, or

   (ii) continue to hold Units in the Classic Fund and redeem those Units at a later date (as explained below, at the end of the Lock-Up Period, holders of Units in the Leveraged Fund who do not redeem their Units will receive Units in the Classic Fund).

9. In the event of an early unwind resulting from the Canadian Participant satisfying one of the exceptions to the Lock-Up Period prescribed by French law, a Canadian Participant may redeem Units: (a) from the Classic Fund in consideration for the underlying Shares or a cash payment equal to the then market value of the Shares, or (b) from the Leveraged Fund using the Redemption Formula (described below), but using the market value of the Shares at the time of unwind to measure the increase, if any, from the Reference Price (described below).

10. Under the Classic Plan, Canadian Participants will purchase Units in the Classic Fund, which will subscribe for Shares on behalf of the Canadian Participants, at a purchase price that is equal to the average of the closing price of the Shares on the 20 trading days preceding AXA board approval of the Employee Share Offering (the "**Reference Price**"), less a 20% discount. Dividends paid on the Shares held in the Classic Fund will be capitalized and Canadian Participants will be credited with additional Units.

11. Under the Leveraged Plan, Canadian Participants will purchase Units in the Leveraged Fund, and the Leveraged Fund will then subscribe for Shares using the Employee Contribution (as described below) and certain financing made available by a major European bank, Deutsche Bank A.G. ("**Deutsche Bank**").

12. As with the Classic Plan, Canadian Participants in the Leveraged Plan enjoy the benefit of a 20% discount in the Reference Price. Under the Leveraged Plan, the Canadian Participants effectively receive a share appreciation entitlement in the increase in value, if any, of the Shares financed by the Deutsche Bank Contribution (as described below).

13. Participation in the Leveraged Plan represents an opportunity for Qualifying Employees potentially to obtain significantly higher gains than would be available through participation in the Classic Plan, by virtue of the Qualifying Employee's indirect participation in a financing arrangement involving a swap agreement (the "**Swap Agreement**") between the Leveraged Fund and Deutsche Bank. In economic terms, the Swap Agreement effectively involves the following exchange of payments: for each Share which may be purchased by the Qualifying Employee's contribution (the "**Employee Contribution**") under the Leveraged Plan at the Reference Price less the 20% discount, Deutsche Bank will lend to the Leveraged Fund (on behalf of the Canadian Participant) an amount sufficient to enable the Leveraged Fund (on behalf of the Canadian Participant) to purchase an additional nine Shares (the "**Deutsche Bank Contribution**") at the Reference Price less the 20% discount.

14. Under the terms of the Swap Agreement, at the end of the Lock-Up Period (the "**Settlement Date**"), the Leveraged Fund will owe to Deutsche Bank an amount equal to the market value of the Shares held in that Fund, less

    (i) 100% of the Employee Contributions; and

    (ii) an amount equal to approximately 50% of the increase, if any, in the market price of the Shares from the Reference Price (the "**Appreciation Amount**").

15. If, at the Settlement Date, the market value of the Shares held in the Leveraged Fund is less than 100% of the Employee Contributions, Deutsche Bank will, pursuant to a guarantee agreement, make a cash contribution to the Leveraged Fund to make up any shortfall.

16. At the end of the Lock-Up Period, the Swap Agreement will terminate after the making of final swap payments and a Canadian Participant may redeem his or her Leveraged Fund Units in consideration for a payment of an amount equal to the value of the Canadian Participant's Employee Contribution and the Canadian Participant's portion of the Appreciation Amount, if any, to be settled by delivery of such number of Shares equal to such amount or the cash equivalent of such amount (the "**Redemption Formula**"). Following these redemptions, all assets (including Shares) remaining in the Leveraged Fund will be transferred to the Classic Fund. New Units of the Classic Fund will be issued to the applicable Canadian Participants in recognition of the assets transferred to the Classic Fund. The Canadian Participants may redeem the new Units whenever they wish.

17. Under no circumstances will a Canadian Participant in the Leveraged Fund be entitled to receive less than 100% of his or her Employee Contribution at the end of the Lock-Up Period, nor be liable for any other amounts.

18. Under French law, the Funds, as FCPEs, are limited liability entities. The risk statement provided to Canadian Participants will confirm that, under no circumstances, will a Canadian Participant in the Leveraged Plan be liable to any of the Leveraged Fund, Deutsche Bank or the Filer for any amounts in excess of his or her Employee Contribution under the Leveraged Plan.

19. During the term of the Swap Agreement, dividends paid on the Shares held in the Leveraged Fund will be remitted to the Leveraged Fund, and the Leveraged Fund will remit an equivalent amount to Deutsche Bank as partial consideration for the obligations assumed by Deutsche Bank under the Swap Agreement.

20. For Canadian federal income tax purposes, the Canadian Participants in the Leveraged Fund will be deemed to receive all dividends paid on the Shares financed by either the Employee Contribution or the Deutsche Bank Contribution, at the time such dividends are paid to the Leveraged Fund, notwithstanding the actual non-receipt of the dividends by the Canadian Participants. Consequently, Canadian Participants will be required to fund the tax liabilities associated with the dividends without recourse to the actual dividends.

21. The declaration of dividends on the Shares remains at the sole discretion of the board of directors of the Filer. The Filer has not made any commitment to Deutsche Bank as to any minimum payment in respect of dividends.

22. To respond to the fact that, at the time of the initial investment decision relating to participation in the Leveraged Plan, Canadian Participants will be unable to quantify their potential income tax

liability resulting from such participation, the Filer will indemnify each Canadian Participant in the Leveraged Plan for all tax costs to the Canadian Participants associated with the payment of dividends in excess of a specified amount of euros per Share during the Lock-Up Period such that, in all cases, a Canadian Participant will, at the time of the original investment decision, be able to quantify, with certainty, his or her maximum tax liability in connection with dividends received by the Leveraged Fund on his or her behalf under the Leveraged Plan.

23. At the time the Canadian Participant's obligations under the Swap Agreement are settled, the Canadian Participant will realize a capital gain (or capital loss) by virtue of having participated in the Swap Agreement to the extent that amounts received by the Leveraged Fund, on behalf of the Canadian Participant, from Deutsche Bank exceed (or are less than) amounts paid by the Leveraged Fund, on behalf of the Canadian Participant to Deutsche Bank. To the extent that dividends on Shares that are deemed to have been received by a Canadian Participant are paid by the Fund on behalf of the Canadian Participant to Deutsche Bank, such payments will reduce the amount of any capital gain (or increase the amount of any capital loss) to the Canadian Participant under the Swap Agreement. Capital losses (gains) realized by a Canadian Participant under the Swap Agreement may be offset against (reduced by) any capital gains (losses) realized by the Canadian Participant on a disposition of the Shares, in accordance with the rules and conditions under the *Income Tax Act* (Canada) or comparable provincial legislation (as applicable).

24. The Manager, AXA Gestion Intéressement, is a portfolio management company governed by the laws of France. The Manager is registered with the French Commission des Opérations de Bourse (the "**COB**") to manage French investment funds and complies with the rules of the COB. The Manager is not and has no intention of becoming a reporting issuer under the Legislation.

25. The Manager's portfolio management activities in connection with the Employee Share Offering and the Funds are limited to purchasing Shares from the Filer, selling such Shares as necessary in order to fund redemption requests, and such activities as may be necessary to give effect to the Swap Agreement.

26. The Manager is also responsible for preparing accounting documents and publishing periodic informational documents as provided by the rules of each Fund. The Manager's activities in no way affect the underlying value of the Shares.

27. Shares issued in the Employee Share Offering will be deposited in the relevant Fund through BNP Paribas Securities Services (the "**Depositary**"), a large French commercial bank subject to French banking legislation.

28. Under French law, the Depositary must be selected by the Manager from among a limited number of companies identified on a list by the French Minister of the Economy, and its appointment must be approved by the COB. The Depositary carries out orders to purchase, trade and sell securities in the portfolio and takes all necessary action to allow each Fund to exercise the rights relating to the securities held in its portfolio.

29. Canadian Participants will not be induced to participate in the Employee Share Offering by expectation of employment or continued employment.

30. The total amount invested by a Canadian Participant in the Employee Share Offering cannot exceed 25% of his or her gross annual compensation for 2002, or for his or her last year of employment, as the case may be, although a lower limit may be established by the Canadian Affiliates.

31. None of the Filer, the Manager, the Canadian Affiliates or any of their employees, agents or representatives will provide investment advice to the Qualifying Employees with respect to an investment in the Units.

32. The Filer has retained a registrant registered as a broker/investment dealer under the Legislation (the "**Registrant**") to provide advisory services to Canadian Participants in connection with the Leveraged Plan and to make a determination, in accordance with industry practices, as to whether an investment in the Leveraged Plan is suitable for each Canadian Participant who expresses interest in the Leveraged Plan, based on his or her particular financial circumstances. The Registrant will establish accounts for, and will receive the initial account statements from the Leveraged Fund on behalf of, such Canadian Participants.

33. The Units of the Leveraged Fund will be issued by the Leveraged Fund to Canadian Participants solely through the Registrant. The Units will be evidenced by account statements issued by the Leveraged Fund.

34. The Canadian Participants will receive an information package in the French or English language, as applicable, which will include a summary of the terms of the Employee Share Offering, a tax notice relating to the relevant Fund containing a description of Canadian income tax consequences of subscribing to and holding the Units in the Funds and redeeming Units for cash

or Shares at the end of the Lock-Up Period. The information package will also include a risk statement relating to the Leveraged Plan only, which will describe certain risks associated with an investment in Units pursuant to the Leveraged Plan.

35. Upon request, employees may receive copies of the Filer's annual report on Form 20-F filed with the United States Securities and Exchange Commission (the "**SEC**") and/or the French *Document de Référence* filed with the COB in respect of the Shares and a copy of the relevant Fund's rules (which are analogous to company by-laws).

36. The Canadian Participants who subscribe for Units in the Funds will also receive copies of the continuous disclosure materials relating to the Filer furnished to AXA shareholders generally.

37. There are approximately 1,873 Employees resident in Canada, in the provinces of Québec (1,198), Ontario (387), British Columbia (141), Alberta (91), Newfoundland and Labrador (41), New Brunswick (10) and Manitoba (5), who represent in the aggregate approximately 1.3% of the number of Employees worldwide.

38. There are approximately 21 eligible Retired Employees resident in Canada, in the provinces of Québec (10), Ontario (9), and British Columbia (2), for a total of 1,894 Qualifying Employees resident in Canada.

39. As of the date hereof and after giving effect to the Employee Share Offering, Canadian residents do not and will not beneficially own (which term, for the purposes of this paragraph, is deemed to include all Shares held by the Funds on behalf of Canadian Participants) more than 10% of the Shares and do not and will not represent in number more than 10% of the total number of holders of the Shares as shown on the books of the Filer.

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "**Decision**");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

(a) the Prospectus Requirements shall not apply to trades in Units of the Leveraged Fund to or with Canadian Participants pursuant to the Employee Share Offering, provided that all trades that are sales in a Jurisdiction are made through a dealer that is registered as a broker/investment dealer in the Jurisdiction, and the first trade in such Units acquired by Canadian Participants pursuant to this Decision, in a Jurisdiction, shall be deemed a distribution or a primary distribution to the public under the Legislation of such Jurisdiction;

(b) the Registration and Prospectus Requirements shall not apply to trades in Units of the Classic Fund to or with the Canadian Participants pursuant to the Employee Share Offering, provided that the first trade in such Units acquired by Canadian Participants pursuant to this Decision, in a Jurisdiction, shall be deemed a distribution or a primary distribution to the public under the Legislation of such Jurisdiction;

(c) the Registration and Prospectus Requirements shall not apply to:

(i) trades of Shares by the Funds to the Canadian Participants upon the redemption of Units by Canadian Participants pursuant to the Employee Share Offering; and

(ii) the issuance of Units of the Classic Fund to holders of Leveraged Fund Units upon the transfer of the assets of the Leveraged Fund to the Classic Fund;

provided that, the first trade in any such Shares or Units acquired by a Canadian Participant pursuant to this Decision, in a Jurisdiction, shall be deemed a distribution or a primary distribution to the public under the Legislation of such Jurisdiction;

(d) the Registration and Prospectus Requirements shall not apply to the first trade in any Shares acquired by a Canadian Participant under the Employee Share Offering provided that such trade is:

(i) made through a person or company who/which is appropriately licensed to carry on business as a broker/dealer (or the equivalent) under the applicable securities legislation in the foreign jurisdiction where the trade is executed; and

(ii) executed through the facilities of a stock exchange outside of Canada; and

(e) the Manager shall be exempt from the Adviser Registration Requirements, where applicable, in order to carry out the activities described in paragraphs 25 and 26 hereof.

September 24, 2002.

"Josée Deslauriers"

2.1.2 Ketch Energy Ltd. - MRRS Decision

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - issuer deemed to be no longer a reporting issuer under the Act.

Applicable Ontario Statutory Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., s. 83.

IN THE MATTER OF
THE CANADIAN SECURITIES LEGISLATION OF
ALBERTA, SASKATCHEWAN, ONTARIO, AND QUÉBEC

AND

IN THE MATTER OF
THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELEIF APPLICATIONS

AND

IN THE MATTER OF
KETCH ENERGY LTD.

DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of Alberta, Saskatchewan, Ontario and Québec (the "Jurisdictions") has received application from Ketch Energy Ltd. ("Ketch" or the "Corporation") for a decision pursuant to the securities legislation of the Jurisdictions (the "Legislation") that Ketch be deemed to have ceased to be a reporting issuer or the equivalent under the Legislation;

AND WHEREAS pursuant to the Mutual Reliance Review Systems For Exemptive Relief Applications (the "System"), the Alberta Securities Commission is the Principal Regulator for this application.

AND WHEREAS it has been represented by Ketch that:

1. The Corporation was continued under the *Business Corporations Act* (Alberta) on April 20, 1994. On June 13, 2000, the Corporation changed its name to "Ketch Energy Ltd." and consolidated its issued and outstanding share capital on a one for five basis;

2. The head office and principal office of the Corporation is located at 1800, 255 - 5th Avenue S.W., Calgary, Alberta;

3. The authorized capital of Ketch consists of 100,000,000 common shares (the "Common Shares"). 984486 Alberta Ltd. ("AcquisitionCo") owns all the Common Shares that are currently issued and outstanding;

4. Ketch is a reporting issuer or the equivalent in each of the Jurisdictions;

5. Ketch is not in default of any of its obligations as a reporting issuer or the equivalent under the Legislation;

6. On August 21, 2002, Ketch mailed to holders of common shares ("Common Shares") and options ("Options") of Ketch a Notice of Special Meeting and Notice of Petition and Information Circular (the "Information Circular"), which outlined the terms of and sought approval for a plan of arrangement under Section 193 of the *Business Corporations Act* (Alberta) involving Acclaim Energy Trust (the "Trust"), Acclaim Energy Inc. ("Acclaim"), Ketch, Ketch Resources Ltd. ("ExploreCo") and 984486 Alberta Ltd. ("AcquisitionCo"), a wholly-owned subsidiary of Acclaim.

7. The Arrangement was approved by holders of Common Shares and Options on September 26, 2002 and by the Court of Queen's Bench of Alberta on September 7, 2002. Articles of Arrangement were filed on behalf of Ketch on October 1, 2002.

8. Under the terms of the Arrangement, holders of Common Shares received, as a return of capital, one (1) Common Share of ExploreCo for each three (3) Common Shares held. Each issued and outstanding Common Share was transferred to AcquisitionCo in exchange for 1.15 trust units of the Trust ("Trust Units"). AcquisitionCo issued one (1) note (a "Note") to the Trust for each Trust Unit issued.

9. As a result of the Arrangement, AcquisitionCo acquired all of the issued and outstanding Common Shares in exchange for approximately 56,000,000 Trust Units.

10. AcquisitionCo is the sole registered securityholder of Ketch and there are no securities, including debt obligations, currently issued and outstanding other than the Common Shares.

11. The Common Shares were delisted from The Toronto Stock Exchange at the end of trading on October 4, 2002, and there are no securities of Ketch listed on any stock exchange or traded over the counter in Canada or elsewhere; consequently, there is no longer a market for such securities;

12. Ketch does not intend to seek public financing by way of an offering of securities.

AND WHEREAS pursuant to the System this Decision Document evidences the decision of each Decision Maker;

AND WHEREAS each of the Decision Makers is satisfied that tests contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

IT IS THE DECISION by the Decision Makers, pursuant to the Legislation, that Ketch be declared not to be a reporting issuer or the equivalent under the Legislation.

November 27, 2002.

“Patricia M. Johnston”

2.1.3 CBID Markets Inc. - MRRS Decision

Headnote

Variation of original decision dated March 22, 2002, exempting CBID Markets Inc. from sections 8.1 and 8.2 of National Instrument 21-101 Marketplace Operation from December 1, 2002 until the earlier of December 31, 2003 or the date when certain thresholds are reached.

IN THE MATTER OF
NATIONAL INSTRUMENT 21-101
MARKETPLACE OPERATION

AND

IN THE MATTER OF
THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF
CBID MARKETS INC.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of the provinces of Ontario, British Columbia, Manitoba and Quebec issued a decision (the "Prior Decision") on March 22, 2002 under the securities legislation, regulations or rules of such provinces exempting CBID Securities Inc. (now CBID Markets Inc., and also known herein as the "Applicant") from, among other things, sections 8.1 and 8.2 of National Instrument 21-101 Marketplace Operation ("NI 21-101") until December 1, 2002;

AND WHEREAS the local securities regulatory authority or regulator in the province of Alberta confirmed the issuance of a similar decision (collectively with the Prior Decision, the "Original Decision") on September 20, 2002;

AND WHEREAS the Applicant has applied to the Decision Maker in each of the provinces of Ontario, Alberta, British Columbia, Manitoba and Quebec to vary the Original Decision;

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the securities laws, regulations or rules (the "Legislation") that provides the Decision Maker with the jurisdiction to make the Decision has been met:

IT IS HEREBY DECIDED by the Decision Makers that the Original Decision is hereby varied so as to extend the period in which the Applicant is exempted from sections 8.1 and 8.2 of NI 21-101 from December 1, 2002 until the earlier of:

(a) December 31, 2003, and

(b) the date when the total trading volume on the Applicant's Marketplace (comprising the Applicant's retail and institutional systems) in any of the following categories of debt securities in at least three of the preceding four calendar quarters exceeds 5% of the total aggregate trading volume in such securities by all alternative trading systems, inter-dealer bond brokers and dealers for such calendar quarter:

(i) Canadian government debt securities - 0-3 years,

(ii) Canadian government debt securities - 3-10 years,

(iii) Canadian government debt securities - 10 years and over,

(iv) Canadian provincial government debt securities - 0-10 years,

(v) Canadian provincial government debt securities - 10 years and over,

(vi) Canadian corporate debt securities - 0-10 years, and

(vii) Canadian corporate debt securities - 10 years and over.

December 3, 2002.

"Randee B. Pavalow"

2.1.4 Modern Sales Co-op - MRRS Decision

Headnote

Mutual Reliance Review System for Exemptive Relief Applications – Relief granted from the registration and prospectus requirements in respect of trades in shares of a federal co-operative where the shares evidence an interest in an automobile parts buying co-operative and are not purchased as an investment.

Ontario Statutes

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 25, 35(2)8, 53, 73(1)(a), 74(1).

Multilateral Instruments

Multilateral Instrument 45-102 Resale of Securities.

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ONTARIO, ALBERTA, BRITISH COLUMBIA, MANITOBA, NEW BRUNSWICK, NEWFOUNDLAND AND LABRADOR, NOVA SCOTIA, PRINCE EDWARD ISLAND AND SASKATCHEWAN

AND

IN THE MATTER OF
THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF
MODERN SALES CO-OP

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of Ontario, Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Prince Edward Island, and Saskatchewan (the "Jurisdictions") has received an application from Modern Sales Co-op ("the Filer") for a decision under the securities legislation of the Jurisdictions (the "Legislation") that the requirements contained in the Legislation to be registered to trade in a security and to file a preliminary prospectus and prospectus and to receive receipts therefor (collectively, the "Registration and Prospectus Requirements") shall not apply to the issuance by the Filer of membership shares to its members.

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 *Definitions* or in Quebec Commission Notice 14-101;

AND WHEREAS the Filer has represented to the Decision Makers that:

1. The Filer is a cooperative continued under the Canada Cooperatives Act (the "Canada Coop Act") on July 10, 2001. Prior to being continued under that Act, the Filer was a private company incorporated under the federal laws of Canada on April 11, 1936, which conducted business under the name Modern Sales Limited.

2. The Filer is an automotive parts buying group. It is in the business of pooling its members' orders for automotive parts and purchasing and obtaining lines of supply from (predominately American) suppliers, as well as negotiating discounts and credit terms based on large purchase volumes.

3. The Filer is not a reporting issuer or a reporting issuer equivalent under the Legislation and no securities of the Filer are listed or quoted on any stock exchange or market.

4. The authorized capital of the Filer consists of an unlimited number of membership shares without par value (the "Membership Shares") and an unlimited number of investment shares (the "Investment Shares") without par value. As of September 15, 2002, there were 680 Membership Shares and no Investment Shares issued and outstanding.

5. As a condition of membership in the Filer, each member must purchase five Membership Shares. Membership Shares may only be purchased, redeemed or otherwise acquired at a fixed price of $100.00 per Membership Share. Upon termination of the membership of a member, the Filer shall redeem and the member shall sell the member's Membership Shares to the Filer at the fixed price of $100.00 per share.

6. Pursuant to the Canada Coop Act: (i) only members can hold Membership Shares; (ii) membership is limited to persons who can use the services of the Filer and accept the responsibilities of membership; and (iii) the Filer must send to each member and place before each annual meeting of members its financial statements for its most recently completed financial year and each part year ended not more than six months before such annual meeting. As such, all members are familiar with the business and operations of the Filer.

7. The by-laws of the Filer require that members: (i) have the requisite skill and knowledge of, and be engaged in, the distribution and sale of products; (ii) have a history of successful relevant business operations; (iii) have sufficient sales volumes to

benefit from membership; (iv) not cause the Filer any prejudice by its proposed membership; (v) be appropriately financed and capitalized to be financially sound and creditworthy; (vi) have suitable facilities to represent the Filer; (vii) be prepared and able, or be able to become prepared and able, to support the Filer's major suppliers to the benefit of the proposed member and the Filer; (viii) demonstrate by its history of business that it will likely abide by the Filer's Code of Ethics; and (ix) fulfill such other requirements or obligations, whether financial or otherwise, as the directors of the Filer determine.

8. The Filer may pay or credit members with a patronage dividend from all or part of the surplus arising from its operations in a financial year in proportion to the business done by each member with or through the Filer in such year at a rate set by the directors. The Filer has not paid and does not intend to pay any dividends other than patronage dividends on its Membership Shares since it is the Filer's policy to distribute all of its profits by way of patronage dividends.

9. Members may not transfer their Membership Shares without the previous consent of either: (i) the directors of the Filer expressed by a resolution passed at a meeting of the directors or by an instrument or instruments in writing signed by a majority of the directors; or (ii) at least fifty-one percent of the members entitled to vote expressed by resolution passed at a meeting of the membership or by an instrument or instruments in writing signed by such membership.

10. Prior to becoming a member, each prospective member is required to execute and deliver a subscription agreement (the "Subscription Agreement") pursuant to which the proposed member agrees to comply with the share transfer restrictions described above.

11. As of September 15, 2002, the Filer had 136 members, all of which were resident in Canada and all of which were corporations.

AND WHEREAS under the System this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers under the Legislation is that the Registration and Prospectus Requirements shall not apply to trades by the Filer of Membership Shares to its members if

(a) at the time of the trade, the Filer is a cooperative continued under the Canada Coop Act;

(b) a Subscription Agreement which describes the rights and responsibilities of a member is executed by each prospective member prior to such member becoming a holder of Membership Shares and a copy thereof, as accepted by the Filer, is delivered to such member;

(c) prior to, or concurrently with the execution of a Subscription Agreement by a prospective member, the Filer delivers to such prospective member a copy of the articles of continuance and by-laws of the Filer, the financial statements of the Filer for its most recently completed fiscal year, a copy of this MRRS Decision Document and a statement to the effect that as a result of this Decision certain protections, rights and remedies provided by the Legislation, including statutory rights of rescission or damages, will not be available to recipients of Membership Shares and setting out the limitations on the disposition of Membership Shares;

provided that the first trade of any Membership Shares acquired in reliance on this Decision, other than a redemption by the Filer of Membership Shares in accordance with their terms, shall be deemed to be a distribution or primary distribution to the public unless the conditions in subsections (3) or (4) of section 2.6 of Multilateral Instrument 45-102 *Resale of Securities* are satisfied.

December 4, 2002.

"H. Lorne Morphy" "Robert W. Korthals"

2.1.5 Clearwater Seafoods Income Fund - MRRS Decision

Headnote

Mutual Reliance Review System for Exemptive Relief Applications – fund filed prospectus that contained three years of audited financial statements for underlying business – fund itself had not completed financial year – fund unable to use prospectus as a "current AIF" under Multilateral Instrument 45-102 – fund exempt from "current AIF" requirement, subject to conditions.

Applicable Ontario Statutory Provisions

Securities Act, R.S.O. 1990 c. S.5, as am.

Applicable Ontario Rules

Multilateral Instrument 45-102 Resale of Securities (2001) 24 OSCB 7029, sections. 1.1, 4.1.

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ALBERTA, BRITISH COLUMBIA, NEWFOUNDLAND AND LABRADOR, NOVA SCOTIA, NORTHWEST TERRITORIES, NUNAVUT, ONTARIO AND SASKATCHEWAN

AND

IN THE MATTER OF
THE MUTUAL RELIANCE REVIEW SYSTEM FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF
CLEARWATER SEAFOODS INCOME FUND

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of Alberta, British Columbia, Newfoundland and Labrador, Nova Scotia, Northwest Territories, Nunavut, Ontario and Saskatchewan (the "Jurisdictions") has received an application from Clearwater Seafoods Income Fund (the "Fund") for a decision under the securities legislation of the Jurisdictions (the "Legislation") that the requirement contained in the Legislation to have a "current AIF" (a "Current AIF") as defined in Multilateral Instrument 45-102 Resale of Securities ("MI 45-102") filed on SEDAR to be a "qualifying issuer" (a "Qualifying Issuer") under MI 45-102 shall not apply to the Fund;

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Nova Scotia Securities Commission is the principal regulator for this application;

AND WHEREAS, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 Definitions;

AND WHEREAS the Fund has represented to the Decision Makers that:

1. The Fund is an unincorporated open-ended trust established under the laws of Ontario pursuant to a declaration of trust dated June 5, 2002, as amended and restated on July 31, 2002.

2. The head office of the Fund is located at 757 Bedford Highway, Bedford, Nova Scotia, B4A 3Z7.

3. The authorized capital of the Fund is an unlimited number of units and an unlimited number of special trust units, of which 23,287,478 units and 23,381,217 special trust units are outstanding.

4. The principal economic interest of the Fund is the partnership units it holds, indirectly through Clearwater Seafoods Holdings Trust (the "Trust"), in Clearwater Seafoods Limited Partnership (the "Partnership"). The partnership units in the Partnership were purchased by the Fund with the proceeds from the offering pursuant to the Prospectus, as defined below. On the closing of the offering, the Partnership acquired the seafood business (the "Clearwater Seafoods Business") previously carried on by Clearwater Fine Foods Incorporated ("Clearwater"). Clearwater is not a reporting issuer or the equivalent under the Legislation. None of the Fund, the Trust or the Partnership carried on at the time of the offering or currently carries on, directly or indirectly, any business other than the Clearwater Seafoods Business.

5. A decision document pursuant to National Policy 43-201 Mutual Reliance Review for Prospectuses and Annual Information Forms was issued on July 18, 2002 for the Fund's (final) prospectus dated July 17, 2002 (the "Prospectus").

6. Since the Fund had not completed a full financial year, the Prospectus did not include audited financial statements for the Fund's most recently completed financial year. The Prospectus did include audited financial statements of the Clearwater Seafoods Business for the years ended December 31, 2001, 2000, 1999 and 1998.

7. The Fund is a reporting issuer or its equivalent in each of the Jurisdictions. The Fund is not in default of its reporting issuer obligations under the Legislation.

8. The units of the Fund are listed and posted for trading on The Toronto Stock Exchange.

9. To be a Qualifying Issuer under MI 45-102, the Fund must have a Current AIF that contains audited financial statements for the issuer's most recently completed financial year filed on SEDAR.

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers under the Legislation is that the requirement contained in the Legislation to have a Current AIF filed on SEDAR in order to be a Qualifying Issuer under MI 45-102 shall not apply to the Fund provided that:

(a) the Fund files a notice on SEDAR advising that it has filed the Prospectus as an alternative form of annual information form and identifying the SEDAR project number under which the Prospectus was filed;

(b) the Fund files a Form 45-102F2 on or before the tenth day after the distribution date of any securities certifying that it is a Qualifying Issuer except for the requirement that it have a Current AIF; and

(c) this Decision expires 140 days after the Fund's financial year ending December 31, 2002

December 4, 2002.

"H. Leslie O'Brien"

2.1.6 Repadre Capital Corporation - MRRS Decision

Headnote

MRRS - issuer must prepare an information circular in connection with its acquisition by another gold issuer – circular must contain prospectus level disclosure regarding acquiror company issuing securities – target issuer able to rely upon grand-fathering provision in ss. 4.2(1)2 for its own technical disclosure in a short-form prospectus – aquiror also eligible to complete their own short-form offerings in reliance upon grand-fathering provisions contained in ss. 4.2(1) 2- no new material technical information to be disclosed – target issuer preparing information circular in connection with transaction exempt from requirement to file a technical report in connection with technical disclosure contained in the information circular.

Rules Cited

National Instrument 43-101 - Standards of Disclosure for Mineral Projects, ss. 4.2(1)2, 4.2(1)3, and 9.1(1).
OSC Rule 54-501 – Prospectus Disclosure, s. 2.1.

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA, ONTARIO, QUEBEC, NEW BRUNSWICK, NOVA SCOTIA, PRINCE EDWARD ISLAND, NEWFOUNDLAND AND LABRADOR, YUKON, NORTHWEST TERRITORIES AND NUNAVUT

AND

IN THE MATTER OF
THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF
REPADRE CAPITAL CORPORATION

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker", and collectively, the "Decision Makers") in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Yukon, Northwest Territories and Nunavut (collectively the "Jurisdictions") has received an application (the "Application") from Repadre Capital Corporation (the "Filer") for a decision under section 9.1 of National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("NI 43-101") that the Filer is exempt from the requirements contained in paragraphs 2.2(a) and 4.2(1)3 of NI 43-101 in connection with a management information circular;

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the

"System"), Ontario is the principal jurisdiction for this application;

AND WHEREAS the Filer has represented to the Decision Makers that:

1. The Filer was incorporated under the laws of British Columbia in 1981, continued under the OBCA in 1990 and amalgamated with Golden Knight Resources Inc. ("Golden Knight") and Mutual Resources Inc. under the OBCA effective January 1, 2000. The Filer's registered and principal executive offices are located in Toronto, Ontario.

2. The Filer is a reporting issuer in each of the Jurisdictions and is eligible to file a prospectus in the form of a short form prospectus under National Instrument 44-101 – Short Form Prospectus Distributions ("NI 44-101").

3. The authorized share capital of the Filer consists of an unlimited number of preference shares, issuable in series, and an unlimited number of common shares ("Repadre Shares"), of which, as at October 28, 2002, nil preference shares and 39,306,870 Repadre Shares were issued and outstanding.

4. The Repadre Shares are listed and posted for trading on the Toronto Stock Exchange (the "TSX").

5. The Filer's business consists of:

   (a) an indirect 18.9% interest, through Gold Fields Ghana Limited ("GFGL"), in the Tarkwa Gold Mine, acquired in 1999 (in connection with the acquisition by the Filer of Golden Knight) and located in Ghana;

   (b) an indirect 18.9% interest, through Abosso Goldfields Limited ("Abosso"), in the Damang Gold Mine, acquired in January 2002 and located immediately to the north of the Tarkwa Gold Mine in Ghana; and

   (c) a portfolio of active and inactive royalties on natural resource properties in a number of countries around the world.

   The remaining interests in each of GFGL and Abosso are held by Gold Fields Limited ("Gold Fields") as to 71.1% and the Government of Ghana as to 10%.

6. Gold Fields is a major international gold mining company having its ordinary shares listed on the Johannesburg Stock Exchange and its American Depositary Receipts ("ADR"s) listed on the New York Stock Exchange (the "NYSE"). GFGL is the operator of the Tarkwa Gold Mine and Abosso is the operator of the Damang Gold Mine. Gold Fields is also paid an annual fee to operate the Tarkwa Gold Mine and the Damang Gold Mine.

7. The acquisition of the Filer's interest in the Tarkwa Gold Mine predated the effective date of NI 43-101 (February 1, 2001).

8. The acquisition of the Damang Gold Mine constituted a significant acquisition (as defined in NI 44-101) by the Filer and, accordingly, a technical report dated March 2002 entitled "An Independent Technical Report on the Damang Gold Mine, Ghana" (the "Damang Report") was prepared in compliance with NI 43-101 and filed in the Jurisdictions.

9. The Filer has agreed, subject to certain terms and conditions, to carry out a business combination (the "Transaction") with IAMGOLD Corporation ("IAMGOLD"). The Transaction is proposed to be effected by way of a plan of arrangement (the "Arrangement") under the *Business Corporations Act* (Ontario). Pursuant to the Arrangement, the Filer will amalgamate with a newly incorporated wholly-owned subsidiary of IAMGOLD, each Repadre Share will be exchanged for 1.6 common shares of IAMGOLD ("IAMGOLD Shares") and the amalgamated corporation will be a wholly-owned subsidiary of IAMGOLD.

10. IAMGOLD was incorporated under the *Canada Business Corporations Act* on March 27, 1990. On April 11, 2000 IAMGOLD amalgamated with a wholly-owned subsidiary, with the continuing company being identical in all respects to the pre-amalgamation IAMGOLD Corporation. IAMGOLD's registered and principal executive offices are located in Markham, Ontario.

11. IAMGOLD is a reporting issuer in each of the Jurisdictions and is eligible to file a prospectus in the form of a short form prospectus under NI 44-101.

12. The authorized share capital of IAMGOLD consists of an unlimited number of first preference shares, issuable in series, an unlimited number of second preference shares, issuable in series, and an unlimited number of IAMGOLD Shares, of which, as at October 28, 2002, nil first preference shares, nil second preference shares and 78,555,723 IAMGOLD Shares were issued and outstanding.

13. The IAMGOLD Shares are listed and posted for trading on the TSX and on the American Stock Exchange.

14. IAMGOLD's business consists of:

    (a) an indirect 38% interest, through La Societe d'Exploitation des Mines d'Or de Sadiola S.A. ("SEMOS"), in the Sadiola Gold Mine located in Mali;

    (b) an indirect 40% interest, through Yatela Exploitation Company Limited ("Yatela"), in the Yatela Gold Mine located in Mali immediately to the north of the Sadiola Gold Mine; and

    (c) exploration properties located in West and South Africa and in South America.

    The remaining interests in SEMOS are owned by AngloGold Ltd. ("AngloGold") as to 38%, the Government of Mali as to 18% and International Finance Corporation (a member of the World Bank Group) as to 6%. The remaining interests in Yatela are owned indirectly by AngloGold as to 40% and the Government of Mali as to 20%.

15. A wholly-owned subsidiary of AngloGold is the operator of both the Sadiola Gold Mine and the Yatela Gold Mine. AngloGold is a major international gold mining company having its ordinary shares listed on a number of international stock exchanges and its ADRs listed on the NYSE.

16. The acquisition of IAMGOLD's interests in the Sadiola Gold Mine and the Yatela Gold Mine occurred prior to the effective date of NI 43-101.

17. On or about December 5, 2002, application will be made to the Superior Court of Justice (Ontario) (the "Court") for an interim order (the "Interim Order") relating to a special meeting (the "Repadre Meeting") of the holders of the Repadre Shares (the "Repadre Shareholders") to be held for the purpose of obtaining approval of the Arrangement. It is expected that the Interim Order will provide that such approval will require the favourable votes of two-thirds of the Repadre Shares voted at the Repadre Meeting. The Repadre Meeting is scheduled to be held on January 6, 2003. At the Repadre Meeting, each holder of Repadre Shares will be entitled to one vote for each Repadre Share held.

18. In connection with the Repadre Meeting, the Filer is preparing a management information circular (the "Repadre Circular") to be mailed to Repadre Shareholders as soon as possible after the Interim Order is obtained.

19. Pursuant to the securities legislation of the Jurisdictions, the Repadre Circular must include disclosure that would be required in a prospectus as if the Circular were a prospectus of IAMGOLD.

20. The Circular will include information derived from documents filed by each of the Filer and IAMGOLD with securities regulators in Canada. The Circular may also incorporate by reference documents filed by IAMGOLD.

21. NI 43-101 requires an issuer to file a current technical report to support material information contained in a short form prospectus or an annual information form, describing mineral projects on a property material to the issuer unless the information was contained in a disclosure document filed before February 1, 2001.

22. NI 43-101 also requires a current technical report to be filed by an issuer to support information in an information circular concerning the acquisition of a material property.

23. Material information concerning the Tarkwa Gold Mine is contained in disclosure documents filed before February 1, 2001 and material information concerning the Damang Gold Mine (together with the Tarkwa Gold Mine, the "Repadre Mining Properties") is contained in the Damang Report.

24. Since February 1, 2001, no new material information exists concerning the Tarkwa Gold Mine which would require the filing of a current technical report under NI 43-101. Since the Damang Report, no new material information exists concerning the Damang Gold Mine.

25. The information the Filer proposes to include in the Repadre Circular regarding the reserves and resources on the Repadre Mining Properties has been prepared by qualified persons in accordance with the South African Code for Reporting Mineral Resources and Reserves (the "SAMREC Code"). The SAMREC Code sets out minimum standards, recommendations and guidelines for public reporting of mineral resources and reserves in South Africa. The SAMREC Code is modelled on the JORC Code (as defined in NI 43-101). The disclosure in the Repadre Circular will include a statement that the reserves and resources on the Repadre Mining Properties would not be materially different if they were reported in accordance with the categories required by paragraph 2.2(a) of NI 43-101.

26. Material information concerning the Sadiola Gold Mine and the Yatela Gold Mine (collectively the "IAMGOLD Mining Properties") is contained in disclosure documents filed before February 1, 2001. The information regarding the reserves and resources with respect to the IAMGOLD Mining Properties has been prepared or reviewed by qualified persons in accordance with the JORC Code and has been reconciled to CIM definitions as required by Part 7 of NI 43-101.

27. The Filer has been advised by IAMGOLD that, since February 1, 2001, no new material information exists concerning the IAMGOLD Mining Properties which would require the filing of a technical report pursuant to NI 43-101.

AND WHEREAS pursuant to the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the securities legislation of the Jurisdictions that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers pursuant to subsection 9.1(1) of NI 43-101 is that the Filer is exempt from:

(a) paragraph 2.2(a) in connection with the disclosure in the Repadre Circular of reserves and resources on the Repadre Mining Properties prepared in accordance with the SAMREC Code; and

(b) paragraph 4.2(1)3 in connection with the information about the Repadre Mining Properties and the IAMGOLD Mining Properties contained or incorporated by reference in the Repadre Circular.

December 9, 2002.

"Iva Vranic"

2.1.7 Scotia Securities Inc. - MRRS Decision

Headnote

Exemption from the requirement to deliver comparative annual financial statements for the year ending December 31, 2002 to registered securityholders of certain mutual funds.

Statutes Cited

Securities Act (Ontario), R.S.O. 1990 c. S.5, as am., ss. 79 and 80(b)(iii).

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, ONTARIO, NOVA SCOTIA, NEWFOUNDLAND AND LABRADOR

AND

IN THE MATTER OF
THE MUTUAL RELIANCE REVIEW SYSTEM FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF
SCOTIA T-BILL FUND, SCOTIA PREMIUM T-BILL FUND, SCOTIA MONEY MARKET FUND, SCOTIA CANAM U.S. $ MONEY MARKET FUND, SCOTIA CANADIAN BOND INDEX FUND, SCOTIA MORTGAGE INCOME FUND, SCOTIA CANADIAN INCOME FUND, SCOTIA CANAM U.S. $ INCOME FUND, SCOTIA CANGLOBAL INCOME FUND, SCOTIA CANADIAN BALANCED FUND, SCOTIA TOTAL RETURN FUND, SCOTIA CANADIAN STOCK INDEX FUND, SCOTIA CANADIAN DIVIDEND FUND, SCOTIA CANADIAN BLUE CHIP FUND, SCOTIA CANADIAN GROWTH FUND, SCOTIA CANADIAN SMALL CAP FUND, SCOTIA RESOURCE FUND, SCOTIA AMERICAN STOCK INDEX FUND, SCOTIA AMERICAN GROWTH FUND, SCOTIA CANAM STOCK INDEX FUND, SCOTIA NASDAQ INDEX FUND, SCOTIA YOUNG INVESTORS FUND, SCOTIA INTERNATIONAL STOCK INDEX FUND, SCOTIA GLOBAL GROWTH FUND, SCOTIA EUROPEAN GROWTH FUND, SCOTIA PACIFIC RIM GROWTH FUND, SCOTIA LATIN AMERICAN GROWTH FUND, CAPITAL U.S. LARGE COMPANIES FUND, CAPITAL U.S. LARGE COMPANIES RSP FUND, CAPITAL U.S. SMALL COMPANIES FUND, CAPITAL U.S. SMALL COMPANIES RSP FUND, CAPITAL INTERNATIONAL LARGE COMPANIES FUND, CAPITAL INTERNATIONAL LARGE COMPANIES RSP FUND, CAPITAL GLOBAL DISCOVERY FUND, CAPITAL GLOBAL DISCOVERY RSP FUND, CAPITAL GLOBAL SMALL COMPANIES FUND, CAPITAL GLOBAL SMALL COMPANIES RSP FUND

MRRS DECISION DOCUMENT

WHEREAS the Canadian securities regulatory authority or regulator (the "Decision Maker") in each of the

Provinces of British Columbia, Alberta, Saskatchewan, Ontario, Nova Scotia, Newfoundland and Labrador, (the "Jurisdictions") has received an application (the "Application") from Scotia Securities Inc. (the "Manager"), Scotia T-Bill Fund, Scotia Premium T-Bill Fund, Scotia Money Market Fund, Scotia CanAm U.S. $ Money Market Fund, Scotia Canadian Bond Index Fund, Scotia Mortgage Income Fund, Scotia Canadian Income Fund, Scotia CanAm U.S. $ Income Fund, Scotia CanGlobal Income Fund, Scotia Canadian Balanced Fund, Scotia Total Return Fund, Scotia Canadian Stock Index Fund, Scotia Canadian Dividend Fund, Scotia Canadian Blue Chip Fund, Scotia Canadian Growth Fund, Scotia Canadian Small Cap Fund, Scotia Resource Fund, Scotia American Stock Index Fund, Scotia American Growth Fund, Scotia CanAm Stock Index Fund, Scotia Nasdaq Index Fund, Scotia Young Investors Fund, Scotia International Stock Index Fund, Scotia Global Growth Fund, Scotia European Growth Fund, Scotia Pacific Rim Growth Fund, Scotia Latin American Growth Fund, Capital U.S. Large Companies Fund, Capital U.S. Large Companies RSP Fund, Capital U.S. Small Companies Fund, Capital U.S. Small Companies RSP Fund, Capital International Large Companies Fund, Capital International Large Companies RSP Fund, Capital Global Discovery Fund, Capital Global Discovery RSP Fund, Capital Global Small Companies Fund and Capital Global Small Companies RSP Fund (collectively, the "Funds") for a decision pursuant to the securities legislation of certain of the Jurisdictions (the "Legislation") for relief from the requirement to deliver comparative annual financial statements of the Funds to certain securityholders of the Funds unless they have requested to receive them;

AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 Definitions or in Québec Commission Notice 14-101;

AND WHEREAS it has been represented by the Manager to the Decision Makers that:

(a) The Funds are open-ended mutual fund trusts established under the laws of Ontario.

(b) The Manager is a corporation incorporated under the laws of Ontario. The Manager is the trustee and manager of the Funds. The Manager is registered as a mutual fund dealer in all jurisdictions of Canada.

(c) The Funds are reporting issuers in each of the Participating Jurisdictions and are not in default of any requirements of the Legislation.

(d) Class A and F units of the Funds are presently offered for sale on a continuous basis in each province and territory of Canada pursuant to a simplified prospectus dated December 3, 2001, as amended. Private Client Units of certain of the Funds are presently offered for sale on a continuous basis in each province and territory of Canada pursuant to a separate simplified prospectus dated December 3, 2001.

(e) Each of the Funds is required to deliver annually, within 140 days of its financial year-end, to each holder of its securities ("Securityholders"), comparative financial statements in the prescribed form pursuant to the Legislation. Pursuant to the Legislation the financial statements of the Top Funds are to include financial statements of the Underlying Funds. The Top Funds satisfy this requirement by the sending of the financial statements of the Underlying Funds with the financial statements of the Top Funds.

(f) The Manager proposes to send to Securityholders who hold securities of the Funds in client name where the Manager is the dealer (the "Direct Securityholders"), together with their year end account statement, a notice advising them that they will not receive the annual financial statements of the Funds for the year then ended unless they request same, and providing them with a request form to send back, by fax or prepaid mail, if they wish to receive the annual financial statements. The notice will advise the Direct Securityholders that the annual financial statements of the Funds may be found on the websites referred to in clause (h) and downloaded. The Manager would send such financial statements to any Direct Securityholder who requests them in response to such notice or who subsequently requests them by request on a toll-free number or at a branch of The Bank of Nova Scotia.

(g) Securityholders who hold their securities in the Funds through a nominee will be dealt with pursuant to National Instrument 54-101. Securityholders who hold their securities in the Funds in client name where the Manager is not the dealer will be sent the annual financial statements of the Funds in accordance with the Legislation.

(h) Securityholders will be able to access annual financial statements of the Funds

either on the SEDAR website or on the Scotiabank website: www.scotiabank.com. As disclosed in the simplified prospectuses of the funds, the top ten holdings will also be accessible via a toll-free phone line and the Scotiabank website, which are updated monthly.

(i) There would be substantial cost savings if the Funds are not required to print and mail annual financial statements to those Direct Securityholders who do not want them.

(j) The Canadian Securities Administrators have published for comment proposed National Instrument 81-106 which, among other things, would permit mutual funds not to deliver annual financial statements to those of its securityholders who do not request them, if the Funds provide each securityholder with a request form under which the securityholder may request, at no cost to the securityholder, to receive the mutual fund's annual financial statements for that financial year.

(k) Proposed National Instrument 81-106 would also require a mutual fund to have a toll-free telephone number for, or accept collect calls from, persons or companies that want to receive a copy of, among other things, the annual financial statements of the mutual fund.

AND WHEREAS pursuant to the System this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers are satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

AND WHEREAS the Decision Makers are satisfied that making the Decision will not adversely affect the rule-making process with respect to proposed National Instrument 81-106 and is consistent with National Instrument 54-101;

THE DECISION of the Decision Makers pursuant to the Legislation is that:

1. (i) the Funds; and

(ii) mutual funds created subsequent to the date hereof that are offered by way of simplified prospectus and managed by the Manager,

shall not be required to deliver their comparative annual financial statements for the year ending December 31, 2002 to their Direct Securityholders other than those Direct Securityholders who have requested to receive them provided that:

(a) the Manager shall file on Sedar, under the annual financial statements category, confirmation of mailing of the request forms that have been sent to the Direct Securityholders as described in clause (f) of the representations within 90 days of mailing the request forms;

(b) the Manager shall file on Sedar, under the annual financial statements category, information regarding the number and percentage of requests for annual financial statements made by the return of the request forms, on a province-by-province basis within 30 days after the end of each quarterly period beginning from the time of mailing the request forms and ending 12 months from the time of mailing;

(c) the Manager shall record the number and a summary of complaints received from Direct Securityholders about not receiving the annual financial statements and shall file on Sedar, under the annual financial statements category, this information within 30 days after the end of each quarterly period beginning from the time of mailing the request forms and ending 12 months from the time of mailing;

(d) the Manager shall, if possible, measure the number of "hits" on the annual financial statements of the Funds on the www.scotiabank.com website and shall file on Sedar, under the annual financial statements category, this information within 30 days after the end of each quarterly period beginning from the time of mailing the request forms and ending 12 months from the time of mailing; and

(e) the Manager shall file on Sedar, under the annual financial statements category, estimates of the cost savings resulting from the granting of this Decision within 90 days of mailing the request forms.

December 5, 2002.

"Howard I. Wetston" "Harold P. Hands"

2.1.8 Canadian Home Income Plan Corporation - MRRS Decision

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - Dutch auction issuer bid - With respect to securities tendered at or below the clearing price - Offeror exempt from the requirement in the legislation to take up and pay for securities proportionately according to the number of securities deposited by each securityholder, the associated disclosure requirement, and the requirement to state the class and number of securities sought under the issuer bid – valuation provided.

Applicable Ontario Statutory Provisions

Securities Act, R.S.O. 1990, c. S.5, as am, ss. 95(7) and 104(2)(c).

Applicable Ontario Regulations

Regulation made under the Securities Act, R.R.O. 1990, Reg. 1015, as am. ss. 189(b).

Applicable Ontario Rules

Rule 61-501 – Insider Bids, Issuer Bids, Going Private Transactions and Related Party Transactions.

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
BRITISH COLUMBIA, ALBERTA, MANITOBA AND ONTARIO

AND

IN THE MATTER OF
THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF
CANADIAN HOME INCOME PLAN CORPORATION

MRRS DECISION DOCUMENT

WHEREAS the Canadian securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Manitoba, and Ontario (collectively, the "Jurisdictions") has received an application (the "Application") from Canadian Home Income Plan Corporation ("CHIP") for a decision pursuant to the securities legislation of the Jurisdictions (the "Legislation") that, in connection with the proposed purchase by CHIP of a portion of its outstanding common shares and non-voting common shares (collectively, the "Shares") pursuant to an issuer bid (the "Bid"), CHIP be exempt from the requirements in the Legislation to:

(i) take up and pay for securities proportionately according to the number

of securities deposited by each securityholder (the "Proportionate Take-up and Payment Requirement");

(ii) provide disclosure in the issuer bid circular (the "Circular") of such proportionate take-up and payment (the "Associated Disclosure Requirement"); and

(iii) state the class and number of securities sought under the Bid in the Circular (the "Number of Securities Requirement").

AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Ontario Securities Commission is the principal regulator for the Application;

AND WHEREAS CHIP has represented to the Decision Makers that:

1. CHIP is incorporated under the *Canada Business Corporations Act*.

2. CHIP is not a reporting issuer in any of the Jurisdictions or in any other jurisdiction.

3. The authorized capital of CHIP includes an unlimited number of Shares, of which approximately 9,378,797 Shares were outstanding as at November 4, 2002.

4. CHIP proposes to purchase for cash Shares pursuant to the Bid made by way of the Circular. The Bid was made on November 4, 2002 and expires on December 10, 2002.

5. The Shares are not listed on any stock exchange or any other market.

6. The Bid was made pursuant to a modified Dutch Auction procedure as follows:

(a) the maximum number of Shares (the "Specified Number") that CHIP intends to purchase under the Bid is specified in the Circular;

(b) the maximum amount of money (the "Maximum Amount") that CHIP is prepared to spend under the Bid is specified in the Circular;

(c) the range of prices (the "Range") within which CHIP is prepared to repurchase Shares under the Bid is also specified in the Circular;

(d) holders of Shares (the "Shareholders") wishing to tender to the Bid will be able to specify the lowest price within the Range at which they are willing to sell their Shares (an "Auction Tender");

(e) Shareholders wishing to tender to the Bid but who do not wish to make an Auction Tender may elect to be deemed to have tendered at the Clearing Price (defined below) determined in accordance with subparagraph 6(f) below (a "Clearing Price Tender");

(f) the purchase price (the "Clearing Price") of the Shares tendered to the Bid will be the lowest price that will enable CHIP to purchase the maximum number of Shares that may be purchased with the Maximum Amount and will be determined based upon the number of Shares tendered pursuant to an Auction Tender at each price within the Range and the number of Shares tendered pursuant to a Clearing Price Tender, with each Clearing Price Tender being considered a tender at the lowest price in the Range for the purpose of calculating the Clearing Price;

(g) all Shares tendered (and not withdrawn) at or below the Clearing Price pursuant to an Auction Tender or a Clearing Price Tender will be taken up and paid for at the Clearing Price, subject to proration if the aggregate number of Shares tendered at or below the Clearing Price pursuant to Auction Tenders and the number of Shares tendered pursuant to Clearing Price Tenders exceeds the Specified Number or would require CHIP to spend more than the Maximum Amount (an "Over-Subscription");

(h) in the event of an Over-Subscription CHIP will purchase at the Clearing Price from Shareholders who deposited Shares at or below the Clearing Price the Shares so deposited for an aggregate Clearing Price of the Maximum Amount on a pro rata basis. Multiple tenders by the same shareholder will be aggregated for this proration;

(i) all Shares tendered at prices above the Clearing Price will be returned to the appropriate Shareholders;

(j) if, as a result of proration, the number of Shares to be returned to a tendering Shareholder is less than 1,000 Shares, CHIP will purchase at the Clearing Price all of such Shares from such Shareholders, resulting in the purchase of a number of Shares greater than the Specified Number, in order to avoid the

creation of holdings of less than 1,000 Shares, or "Small Holdings", due to proration; and

(k) all Shares tendered by Shareholders who specify a tender price for such tendered Shares that falls outside the Range or who fail to specify any tender price and fail to indicate that they have tendered pursuant to a Clearing Price Tender, will be considered to have been improperly tendered, will be excluded from the determination of the Clearing Price, will not be purchased by CHIP and will be returned to the tendering Shareholders.

7. Prior to the expiry of the Bid, all information regarding the number of Shares tendered and the prices at which such Shares are tendered will be kept confidential, and the depository under the Bid will be directed by CHIP to maintain such confidentiality until the Clearing Price is determined.

8. CHIP has provided a formal valuation in the Circular, in accordance with Ontario Securities Commission Rule 61-501.

9. Since the Bid is for less than all the Shares, if the number of Shares tendered to the Bid at or below the Clearing Price exceeds the maximum number of Shares which CHIP is prepared to purchase, the Legislation would require CHIP to take up and pay for deposited Shares proportionately, according to the number of Shares deposited by each Shareholder. In addition, the Legislation would require disclosure in the Circular that CHIP would, if Shares tendered to the Bid exceeded the Specified Number, take up such Shares proportionately according to the number of Shares tendered by each Shareholder.

10. The Circular:

(a) discloses the mechanics for the take-up of and payment for, or the return of, Shares as described in paragraph 6(g) above; and

(b) explains that, by tendering Shares at the lowest price in the Range, a Shareholder can reasonably expect that the Shares so tendered will be purchased at the Clearing Price, subject to proration and subject to the purchase of Post-Offer Small Holdings as described in paragraph 6(j) above.

AND WHEREAS pursuant to the System, this MRRS Decision Document evidences the decision of each of the Decision Makers (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers in the Jurisdictions pursuant to the Legislation is that, in connection with the Bid, CHIP is exempt from the Proportionate Take-up and Payment Requirement, the Associated Disclosure Requirement and the Number of Securities Requirement, provided that Shares tendered to the Bid are taken up and paid for, or returned to the Shareholders, in the manner and circumstances described in paragraph 6 above.

December 9, 2002.

"Howard I. Wetston" "Robert W. Davis"

2.1.9 ConocoPhillips Canada Resources Corp. - MRRS Decision

Headnote

Mutual Reliance Review System for Exemptive Relief Applications – corporation deemed to have ceased to be a reporting issuer after all of its outstanding securities were acquired by another corporation.

Applicable Ontario Statutory Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., s. 83.

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ALBERTA AND ONTARIO

AND

IN THE MATTER OF
THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF
CONOCOPHILLIPS CANADA RESOURCES CORP.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in Alberta and Ontario (the "Jurisdictions") has received an application from ConocoPhillips Canada Resources Corp. ("ConocoPhillips Canada") for a decision under the securities legislation of each of the Jurisdictions (the "Legislation") that ConocoPhillips Canada be deemed to have ceased to be a reporting issuer under the Legislation;

AND WHEREAS, unless otherwise defined, the terms used herein have the meaning set out in National Instrument 14-101 *Definitions*;

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Alberta Securities Commission is the principal regulator for this application;

AND WHEREAS ConocoPhillips Canada has represented to the Decision Makers that:

1. ConocoPhillips Canada is governed by the *Nova Scotia Companies Act* and is a reporting issuer in each of the Jurisdictions;

2. as of November 8, 2002, ConocoPhillips Canada was not in default of any of its obligations as a reporting issuer under the Legislation;

3. ConocoPhillips Canada's head office is located in Alberta;

4. as of November 8, 2002, the authorized share capital of ConocoPhillips Canada consisted of 10,000,000,000 common shares of which 3,049,001 are issued and outstanding;

5. on July 31, 2002, Conoco Canada Resources Limited ("Conoco Canada"), a wholly owned indirect subsidiary of Conoco Inc., became the sole shareholder of Gulf Indonesia Resources Limited ("Gulf Resources") by way of an offer to purchase and subsequent compulsory acquisition;

6. on August 9, 2002, Conoco Canada, Gulf Resources, and Grissik Gas Company Ltd. amalgamated (the "First Amalgamation") to form a corporation that retained the name Conoco Canada Resources Limited ("CCRL");

7. on August 20, 2002, CCRL amalgamated (the "Second Amalgamation") with 3067046 Nova Scotia Company to form a Nova Scotia unlimited liability company called Conoco Canada Resources Company ("CCRC");

8. prior to completion of the First Amalgamation, Gulf Resources was a reporting issuer in the Jurisdictions;

9. by virtue of the definition of reporting issuer contained in the Legislation, CCRL became a reporting issuer in the Jurisdictions upon completion of the First Amalgamation;

10. by virtue of the definition of reporting issuer contained in the Legislation, CCRC became a reporting issuer in the Jurisdictions upon completion of the Second Amalgamation;

11. on September 5, 2002, CCRC changed its name to ConocoPhillips Canada Resources Corp.;

12. all of the outstanding common shares of ConocoPhillips Canada are held by ConocoPhillips Canada Limited;

13. as of October 8, 2002, ConocoPhillips Canada had US$11,900,000 of debt securities outstanding in three series: the 8.375% Senior Notes due 2005; the 8.35% Senior Notes due 2006; and the 8.25% Senior Notes due 2017 (collectively, the "U.S. Notes");

14. on February 19, 2002, Conoco Canada (the issuing corporation of the U.S. Notes at that time) delivered a consent solicitation to the holders of each series of U.S. Notes, requesting elimination of Conoco Canada's financial reporting obligations under the trust indentures under which the U.S. Notes were issued (the "U.S. Trust Indentures");

15. as part of the consent solicitation process, holders of the U.S. Notes were advised that if they approved the amendments to the U.S. Trust

Indentures, Conoco Canada would no longer be required to file periodic reports with the Alberta Securities Commission or with the Trustee under the U.S. Trust Indentures. In addition, holders of the U.S. Notes were asked to consent to Conoco Canada being deemed to cease to be a reporting issuer under the securities legislation of each of the Jurisdictions;

16. Conoco Canada obtained the requisite approvals from the holders of the U.S. Notes, such that they no longer require Conoco Canada to file financial reports under the U.S. Trust Indentures;

17. on May 16, 2002 (prior to the First Amalgamation) Conoco Canada obtained a decision from the Jurisdictions deeming Conoco Canada to no longer be a reporting issuer in the Jurisdictions;

18. to the knowledge of management of ConocoPhillips Canada, based upon searches conducted by ConocoPhillips Canada, other than the outstanding common shares of ConocoPhillips Canada held by ConocoPhillips Canada Limited and the US$4,000 amount of debt securities (representing less than 0.1% of the US$11,900,000 amount of debt securities outstanding) held beneficially by one resident Canadian, ConocoPhillips Canada has no securities, including debt securities, outstanding in Canada;

19. ConocoPhillips Canada has no present intention of seeking public financing by way of an offering of its securities; and

20. no securities of ConocoPhillips Canada are listed or quoted on any exchange in Canada;

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers under the Legislation is that ConocoPhillips Canada is deemed to have ceased to be a reporting issuer under the Legislation.

November 29, 2002.

"Patricia M. Johnston"

2.1.10 Nestlé S.A. - MRRS Decision

Headnote

MRRS – Relief from registration and prospectus requirements granted for certain trades in options and underlying shares made by wholly owned subsidiary of Nestle S.A. in connection with implementation and operation of the Nestle S.A. stock option plan. First trade in underlying shares deemed to be a distribution unless, except in Quebec, conditions in subsection 2.14(1) of Multilateral Instrument 45-102 are satisfied and, in Quebec, provided that certain conditions are satisfied.

Applicable Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., sections 25, 53 and 74(1).
Ontario Securities Commission Rule 45-503 Trades to Employees, Executives and Consultants.
Multilateral Instrument 45-102 Resale of Securities, subsection 2.14(1).

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ONTARIO, ALBERTA, NOVA SCOTIA AND QUÉBEC

AND

IN THE MATTER OF
THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF
NESTLÉ S.A.

MRRS DECISION DOCUMENT

WHEREAS the Canadian securities regulatory authority or regulator (the "Decision Maker") in each of the Provinces of Ontario, Alberta, Nova Scotia and Québec (the "Jurisdictions") has received an application from Nestlé S.A. (the "Applicant") for a decision under the securities legislation of the Jurisdictions (the "Legislation") that the requirements contained in the Legislation to prepare a prospectus (the "Prospectus Requirement") and to be registered to trade in a security (the "Registration Requirement", together with the Prospectus Requirement, the "Registration and Prospectus Requirements"), shall not apply in the Jurisdictions to certain trades by a Subsidiary (as defined below) of Shares and Options (each, as defined below) pursuant to the terms of the Nestlé Management Stock Option Plan Regulations and amendments thereto (the "Plan");

AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Ontario Securities Commission (the "Commission") is the principal regulator for this application;

AND WHEREAS, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 *Definitions* or in Québec Commission Notice 14-101;

AND WHEREAS the Applicant has represented to the Decision Makers that:

1. The Applicant is a company existing under the laws of Switzerland.

2. As at October 1, 2002, the share capital of the Applicant consisted of 403,520,000 registered shares (the "Shares"), all of which were issued and outstanding.

3. The Shares are listed on the SWX Swiss Exchange and posted for trading on the virt-x Stock Exchange as well as the London Stock Exchange, Bourse de Paris and Deutsche Börse in Europe. The Applicant is subject to the reporting obligations of the Swiss Exchange, London Stock Exchange, Bourse de Paris and Deutsche Börse.

4. The Shares are not quoted or listed and posted for trading on any stock exchange or over-the-counter market in Canada. There is therefore no market for the Shares in Canada and the Applicant does not intend to list the Shares on any stock exchange or quotation system in Canada.

5. The Applicant is not, and has no present intention of becoming, a reporting issuer in any Jurisdiction.

6. Under the Plan, the Applicant, or a wholly owned subsidiary of the Applicant (the "Subsidiary") that holds and owns Shares, grants options ("Options") to purchase Shares at the applicable exercise price to eligible employees of the Applicant and the Applicant's subsidiaries (collectively, the "Participants"). In order for a Subsidiary to grant an Option to a Participant, the Applicant requests that the Subsidiary grant the Option to the Participant in accordance with the provisions of the Plan.

7. When a Participant is granted Options, the Applicant or the Subsidiary, as applicable, provides the Participant with an agreement ("Option Agreement") setting out additional details in respect of the Options. The Option Agreement includes information regarding the number of Options granted to the Participant and the price at which the Options may be exercised to purchase the Shares.

8. The Options may not be transferred during the Participant's lifetime and, upon the death of the Participant, are only transferable by will or pursuant to the laws of intestacy.

9. The Shares delivered to a Participant in respect of the Options may be traded by the Applicant or the Subsidiary to the Participant, depending on whether the Applicant or the Subsidiary initially granted the Options to the Participant. Shares traded by a Subsidiary to a Participant are Shares previously acquired by the Subsidiary from the Applicant or on a stock exchange.

10. Upon the Participant's exercise of the Options and purchase of Shares, the Participant is able to hold the Shares until such Participant decides to sell the Shares immediately or at a later date on the virt-x Stock Exchange through the Administrator (as defined below).

11. The Applicant will use an administrator (which may include various affiliates and divisions of the administrator) (the "Administrator") to carry out certain administrative and transactional services in connection with the Plan, including a Participant's exercise of Options and sale of Shares. The Administrator presently selected by the Applicant to carry out such services is Salomon Smith Barney Inc. Salomon Smith Barney Inc. is registered as an "Investment Dealer, Equities" under the *Securities Act* (Ontario) but is not registered in any capacity under the applicable legislation of any other Jurisdiction. Salomon Smith Barney Inc.'s Canadian affiliate, Salomon Smith Barney Canada Inc., is registered as an "Investment Dealer, Equities" under the *Securities Act* (Ontario) and as a dealer (unrestricted practice) under the *Securities Act* (Québec), but is not registered in any capacity under the applicable legislation of the remaining Jurisdictions.

12. The Administrator's sale of the Shares on behalf of Participants will be carried out on the virt-x Stock Exchange in accordance with the applicable rules and requirements of such exchange.

13. Currently, the maximum number of Shares that may be issued under the Plan is 3,461,065, representing 0.858% of the number of issued and outstanding Shares as of October 1, 2002.

14. Participation in the Plan is voluntary. Participants have not been, and will not be, induced to participate in the Plan or to acquire Shares under the Plan by expectation of employment or continued employment.

15. As of October 1, 2002, the Applicant and the Applicant's subsidiaries had approximately 47 Participants resident in the Jurisdictions, representing less than 1% of holders of Shares worldwide. The shareholdings of the 47 Participants represent less than 1% of the total number of Shares issued and outstanding.

16. As of October 1, 2002, the residents of each of the Jurisdictions, and of Canada, hold less than 10%

of the issued and outstanding Shares as shown on the books and records of the Applicant.

17. The Applicant will provide to the Participants resident in each of the Jurisdictions, on the initial grant of the Options and on a continuous basis, with the same level of disclosure in respect of the Plan as that provided to all other Participants worldwide. On becoming a holder of Shares under the Plan, such Participants will be provided with the same level of disclosure in respect of the Applicant as the Applicant provides to all other holders of Shares.

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met.

THE DECISION of the Decision Makers under the Legislation is that:

(a) the Registration and Prospectus Requirements shall not apply to the granting of Options by a Subsidiary to a Participant provided that, except in Québec, the first trade in Shares underlying Options acquired under the Plan by a Participant in a Jurisdiction shall be deemed to be a distribution under the Legislation, subject to the Registration and Prospectus Requirements, unless the conditions in subsection 2.14(1) of Multilateral Instrument 45-102 *Resale of Securities* are satisfied and, in Québec, provided that such first trades are executed (a) through an exchange or market outside of Canada or (b) among Participants, or between Participants and persons related to the Participants; and

(b) the Registration Requirement shall not apply to a trade of Shares by a Subsidiary, effected through the Administrator, to a Participant.

December 10, 2002.

"Howard I. Wetston" "Theresa McLeod"

2.2 Orders

2.2.1 Skylon Advisors Inc. and Saxon Ongoing Business Trust - s. 147

Headnote

Section 147 of the Act - issuer is exempt from the payment of the fee otherwise payable under section 7.3 of Rule 45-501 in connection with a dual structure transaction where prospectus fees have already been paid.

Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as am., s.147.

Regulations Cited

Regulation made under the Securities Act, R.R.O. 1990, Reg. 1015, as am., subsection 18(2) of Schedule I.

Rules Cited

Ontario Securities Commission Rule 45-501 - Exempt Distributions, s. 7.3.

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

AND

IN THE MATTER OF
SKYLON ADVISORS INC. AND
SAXON ONGOING BUSINESS TRUST

ORDER
(Section 147)

UPON the application (the "Application") of Skylon Advisors Inc. (the "Manager") to the Ontario Securities Commission (the "Commission") for an order pursuant to section 147 of the Act exempting the Saxon Ongoing Business Trust (the "Ongoing Business Trust") from the payment of fees otherwise payable under section 7.3 of Commission Rule 45-501 – *Exempt Distributions* ("Rule 45-501") in connection with the distribution of units of the Ongoing Business Trust (the "Ongoing Business Trust Units");

AND UPON considering the Application and the recommendation of the staff of the Commission;

AND UPON the Manager having represented to the Commission as follows:

1. The Manager is a corporation incorporated under the laws of Ontario on September 19, 2001. The registered office of the Manager is located in Toronto, Ontario;

2. The Manager acts as the manager and trustee of the Saxon Diversified Value Trust (the "Diversified Value Trust") and the Ongoing Business Trust;

3. The Diversified Value Trust is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement made as of October 30, 2002, as amended by an amended and restated trust agreement made as of November 15, 2002;

4. The Diversified Value Trust is authorized to issue an unlimited number of redeemable, transferable units (the "Diversified Value Units"), each of which represents an equal undivided beneficial interest in the net assets of the Diversified Value Trust;

5. A final prospectus dated October 30, 2002 (the "Diversified Value Prospectus") relating to the offering of Diversified Value Units was filed with all of the provincial securities regulatory authorities. A final receipt for this prospectus was issued on October 30, 2002;

6. The Diversified Value Trust is a reporting issuer in each of the provinces of Canada and is not in default of any requirements of Canadian securities legislation;

7. The Diversified Value Trust will invest a specified amount of its assets in a portfolio of common shares of Canadian public companies (the "Common Share Portfolio"). The Diversified Value Trust will enter into a forward purchase and sale agreement (the "Forward Agreement") with TD Global Finance ("TDGF"), a member of the TD Bank Financial Group (the "Counterparty") pursuant to which the Counterparty will agree to pay to the Diversified Value Trust on or about the termination date of the Diversified Value Trust as the purchase price for the Common Share Portfolio an amount equal to 100% of the redemption proceeds of a corresponding number of units of the Ongoing Business Trust;

8. The Ongoing Business Trust is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement made as of October 30, 2002, as amended by an amended and restated trust agreement made as of November 15, 2002;

9. The Ongoing Business Trust filed a final non-offering prospectus, dated October 30, 2002, with the Commission des valeurs mobilières du Québec (the "CVMQ") to enable the Ongoing Business Trust to become a reporting issuer under the *Securities Act* (Québec) (the "Québec Act"). A receipt for the Ongoing Business Trust prospectus, dated October 31, 2002, was issued by the CVMQ;

10. The Ongoing Business Trust is a reporting issuer in the Province of Québec and is not in default of any requirements of the Québec Act or the Regulations to the Québec Act;

11. The Ongoing Business Trust was established for the purpose of acquiring a diversified portfolio consisting primarily of securities of Canadian publicly traded income trusts and, to a lesser extent, securities of other types of Canadian publicly traded trusts such as oil and gas trusts, real estate investment trusts, and energy infrastructure funds (the "Ongoing Business Portfolio");

12. To provide the Ongoing Business Trust with the funds to purchase the Ongoing Business Portfolio, Ongoing Business Trust Units will be issued to the Counterparty. The issuance of Ongoing Business Trust Units to the Counterparty will be made in reliance on the prospectus and registration exemption under section 2.3 of Rule 45-501;

13. Pursuant to subsection 18(1) of Schedule I of Ontario Regulation 1015 made under the Act, the Diversified Value Trust has paid fees in the amount of $27,600 to the Commission in connection with the filing of the Diversified Value Prospectus qualifying the distribution of the Diversified Value Units;

14. Section 7.3 of Rule 45-501 requires the Ongoing Business Trust to make payments to the Commission in respect of distributions of units of the Ongoing Business Trust to the Counterparty;

15. The return to holders of Diversified Value Units is dependent on the return of the Ongoing Business Trust by virtue of the Forward Agreement, and as such, payment of additional fees by the Ongoing Business Trust pursuant to Rule 45-501 will reduce the return of the Diversified Value Trust and therefore the amount payable by the Counterparty to the Diversified Value Trust under the Forward Agreement;

AND UPON the Commission being satisfied that to do so would not be prejudicial to the public interest;

IT IS HEREBY ORDERED, pursuant to section 147 of the Act, that the Ongoing Business Trust is exempt from the requirement to pay the fees required under section 7.3 of Rule 45-501 in connection with distributions of Ongoing Business Trust Units to the Counterparty as contemplated in paragraph 7 above.

December 6, 2002.

"M.T. McLeod" "R. L. Shirriff"

Chapter 3

Reasons: Decisions, Orders and Rulings

3.1 Reasons for Decision

3.1.1 Derivative Services Inc. and Malcolm Robert Bruce Kyle

IN THE MATTER OF
THE COMMODITY FUTURES ACT,
R.S.O. 1990, c. C.20, AS AMENDED

AND

IN THE MATTER OF
AN APPLICATION FOR REVIEW OF RULINGS
OF THE ONTARIO DISTRICT COUNCIL OF
THE INVESTMENT DEALERS ASSOCIATION OF
CANADA

AND

IN THE MATTER OF
DISCIPLINE PURSUANT TO BY-LAW 20 OF
THE INVESTMENT DEALERS ASSOCIATION OF
CANADA

AND

IN THE MATTER OF
DERIVATIVE SERVICES INC. AND
MALCOLM ROBERT BRUCE KYLE

Hearing:	October 21, 2002	
Panel:	H. Lorne Morphy, Q.C	- Chair of the Panel
	Robert L. Shirriff, Q.C.	- Commissioner
Counsel:	Johanna Superina	- For the Staff of the Ontario Securities Commission
	Ricardo Codina	- For the Investment Dealers Association of Canada
	Mary Biggar	- For Derivative Services Inc. and Malcolm Robert Bruce Kyle

REASONS

1. This is an application by Derivative Services Inc. and Malcolm Robert Bruce Kyle for a hearing and review of the rulings of the Ontario District Council of the Investment Dealers Association of Canada released on June 28, 2000, December 13, 2000, May 5, 2000 and July 18, 2000.

2. The Ontario District Council has rendered carefully considered reasons for the above rulings. We agree with those reasons and accordingly this application for a hearing and review is dismissed.

December 6, 2002.

"H. Lorne Morphy" "Robert L. Shirriff"

3.1.2 Carolann Steinhoff

IN THE MATTER OF
THE SECURITIES ACT
R.S.O. 1990, c. S.5, AS AMENDED

AND

IN THE MATTER OF
THE INVESTMENT DEALERS ASSOCIATION OF CANADA
BY-LAW NO. 33

AND

IN THE MATTER OF
AN APPLICATION BY CAROLANN STEINHOFF
FOR A HEARING AND REVIEW

Hearing: October 29, 2002

Panel:	H. Lorne Morphy, Q.C.	- Chair of the Panel
	Robert L. Shirriff, Q.C.	- Commissioner
Counsel:	Kate Wootton	- For the Staff of the Ontario Securities Commission
	Patricia A. Taylor (via audio conference)	- For the Staff of the British Columbia Securities Commission
	B. G. Lohmann	- For the Investment Dealers Association of Canada
	B. Bellmore K. Mitchell	- For Carolann Steinhoff

REASONS FOR DECISION

1. This is a motion brought by Staff of the Ontario Securities Commission to consider:

   (a) whether the Ontario Securities Commission (the "OSC") has jurisdiction under s. 21.1(4) or s. 21.7 of the *Securities Act*, R.S.O. 1990, c. S.5 as amended (the "*Act*") or the Investment Dealers Association of Canada's By-Law No. 33 to hear the application of Carolann Steinhoff ("Steinhoff"); and

   (b) if the OSC does have jurisdiction to hear the application by Steinhoff, should the OSC decline to exercise that jurisdiction in favour of the jurisdiction of the British Columbia Securities Commission ("BCSC") as the more appropriate forum to resolve the matters in issue?

2. The motion by Staff is supported by the Investment Dealers Association of Canada (the "IDA") and by Staff of the BCSC.

3. Carolann Steinhoff ("Steinhoff") is a member of the IDA who lives and works in British Columbia. For some time her licence as an Investment Advisor has been subject to a strict supervision requirement while the Pacific District of the IDA investigates a number of complaints made against Steinhoff by clients.

4. The application by Steinhoff to the OSC is dated July 8, 2002. In that application she requests the following orders:

   (a) a hearing and review of the decision, direction or requirement of the IDA that the Applicant's licence be subject to the condition of strict supervision and of its administration of that decision, direction or requirement;

   (b) an order removing the supervision requirement from the Applicant's licence as an Investment Advisor;

   (c) a hearing and review of the IDA investigation into the complaints made against the Applicant and more particularly, the investigations into the complaints by Malcolm and Jacqueline Holt commenced on September 16, 1999, the complaint by Mary Conley commenced December 22, 1999, and the complaints by Wendy Rayner, Robin Burrell on behalf of Vernon Dawson (deceased), Paul Wilson and Mr. and Mrs. John Shea commenced October 3, 2000;

   (d) a hearing and review of the IDA's failure to complete the investigations into the complaints in a timely or fair manner, and to make any decision with respect to the complaints;

   (e) an order staying the investigations of the said complaints; and

   (f) such further and other relief as counsel may advise and the Ontario Securities Commission deem just pursuant to sections 21.1(4) and 21.7 of the *Securities Act*, R.S.O., c. S.5 and Bylaw 33 of the Investment Dealers Association of Canada.

5. On the return of the Staff motion, Steinhoff filed an affidavit and also gave *viva voce* evidence. She expressed concern and frustration over the fact that she had been subject to the strict supervision requirement for a substantial period of time and that in regard to the complaints against her, they had not been investigated in a

timely fashion or brought to a hearing. This led to her filing her application with the OSC.

6. In regard to the condition of strict supervision, there was evidence on the motion that subsequent to the Steinhoff application to the OSC being filed, and prior to this motion by Staff of the OSC, the IDA had advised Steinhoff on August 26, 2002 that:

> "The Pacific District Council of the Investment Dealers Association ("Council") has accepted a proposal whereby the condition of strict supervision is to be lifted within six months unless Staff makes a specific recommendation to Council to extend the condition.
>
> Council imposed strict supervision on the registration of Carolann Steinhoff pending the outcome of the investigation. As Staff has not made a recommendation to extend the condition in this circumstance, the condition is removed effective immediately."

7. Warren Fund, Vice-President, Member Regulation, western Canada of the IDA also filed an affidavit and gave *viva voce* evidence on the return of the motion. In his affidavit sworn on October 21, 2002, Warren Fund deposes:

> "The Association is prepared to commence disciplinary action pursuant to Association By-law 20 against Ms. Steinhoff with respect to 2 of the 6 complaints referred to in paragraph 16 of this my affidavit. The Association has not commenced such proceedings as it was awaiting the outcome of Ms. Steinhoff's application before the OSC."

8. Assuming the IDA proceeds expeditiously with these two complaints, as we expect it will, that, together with the removal of the strict supervision condition, should alleviate in total, if not in large measure, the situation that led to Steinhoff filing her application with the OSC.

9. Having regard to this, on the hearing of the motion counsel for Steinhoff was asked what relief was now being sought from the OSC to which counsel replied:

> "I would be asking for an order of this Commission to direct the IDA to turn over their entire files to this Commission on this file -- on this matter; the Commission to look at the work they did or failed to do on this; the way in which this complaint was handled; and to make a determination whether or not this complaint ought to go forward."

10. With respect to s. 21.7 of the *Act*, we are of the view that the OSC does not have jurisdiction under this section to hear and grant the relief that Steinhoff requests in that there is no decision as required by s. 27(1) of the *Act* to review. On the motion, it was argued on behalf of Steinhoff that she was relying on the decision by the IDA to commence the investigation against her and the decision to maintain an on-going investigation to satisfy the requirements of s. 21.7(1) of the *Act*. In response to this submission, we were referred to the decision of *Re Ironside 2002,* ABSECCOM REA-895918.7. Relying on that, it was submitted that to be a decision, as used in s. 21.7(1) of the *Act*, requires that there be a formal decision made after a hearing and not simply an administrative decision by Staff such as whether or not to commence an investigation or to take certain actions during an investigation. With that submission we agree and we find that there has been no decision rendered in this matter that could be the subject of a hearing and review under s. 21.7(1) of the *Act*.

11. With respect to s. 21.1(4) of the *Act*, having regard to what has transpired since the filing of the Steinhoff application to the OSC, as noted in paragraphs 6 and 7 supra, we do not think it is necessary to decide at this time whether there is any basis for the OSC having jurisdiction to consider the relief requested by Steinhoff. Because of the close nexus of the matters raised in the application to British Columbia and because we expect the Pacific District of the IDA will proceed expeditiously with the two remaining complaints involving Steinhoff, if there are matters that Steinhoff desires to pursue, we believe that the BCSC is the more appropriate forum.

December 6, 2002.

"H. Lorne Morphy" "Robert L. Shirriff"

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Chapter 4

Cease Trading Orders

4.1.1 Temporary, Extending & Rescinding Cease Trading Orders

Company Name	Date of Order or Temporary Order	Date of Hearing	Date of Extending Order	Date of Lapse/Expire
Asia Media Group Corporation	25 Nov 02	06 Dec 02	06 Dec 02	
Aurelian Developers Ltd.	25 Nov 02	06 Dec 02	06 Dec 02	
Bridgepoint International Inc.	26 Nov 02	06 Dec 02	06 Dec 02	
Capture.Net Technologies Inc.	25 Nov 02	06 Dec 02		09 Dec 02
Great Lakes Nickel Limited	04 Dec 02	16 Dec 02		
GT Group Telecom Inc.	29 Nov 02	11 Dec 02	11 Dec 02	
Hanoun Medical Inc.	05 Dec 02	17 Dec 02		
Konexus Technologies Limited	04 Dec 02	16 Dec 02		
LBL Skysystems Corporation	05 Dec 02	17 Dec 02		
Medical Services International Inc.	22 Nov 02	04 Dec 02		06 Dec 02
Second Chance Corporation	06 Dec 02	18 Dec 02		
Zlin Aerospace Inc.	26 Nov 02	06 Dec 02	06 Dec 02	

4.2.1 Management & Insider Cease Trading Orders

Company Name	Date of Order or Temporary Order	Date of Hearing	Date of Extending Order	Date of Lapse/ Expire	Date of Issuer Temporary Order
AADCO Automotive Inc.	19 Nov 02	02 Dec 02	02 Dec 02	05 Dec 02	
Diadem Resources Ltd.	22 Oct 02	04 Nov 02	04 Nov 02		

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Chapter 7

Insider Reporting

This chapter is available in the print version of the OSC Bulletin, as well as as in Carswell's internet service SecuritiesScource (see www.carswell.com).

This chapter contains a weekly summary of insider transactions of Ontario reporting issuers in the System for Electronic Disclosure by Insiders (SEDI). The weekly summary contains insider transactions reported during the seven days ending Sunday at 11:59 pm.

To obtain Insider Reporting information, please visit the SEDI website (www.sedi.ca).

Chapter 8

Notice of Exempt Financings

Exempt Financings

The Ontario Securities Commission reminds issuers and other parties relying on exemptions that they are responsible for the completeness, accuracy, and timely filing of Forms 45-501F1 and 45-501F2, and any other relevant form, pursuant to section 27 of the *Securities Act* and OSC Rule 45-501 ("Exempt Distributions").

REPORTS OF TRADES SUBMITTED ON FORM 45-501F1

Transaction Date	Purchaser	Security	Total Purchase Price ($)	Number of Securities
21-Nov-2002	Barbara Munro	Acuity Pooled High Income Fund - Trust Units	150,000.00	10,554.00
12-Nov-2002	Walden Services;1368092 Ontario Inc.	Ark e-Tail Services Inc. - Common Shares	115,000.00	76,667.00
16-Oct-2002	Falconbridge Limited;Tony Torchia	Baltic Resources Inc. - Common Shares	110,000.00	330,000.00
15-Nov-2002	Newmont Canada Limited	Beaufield Consolidated Resources Inc. - Shares	0.00	150,000.00
20-Nov-2002	Royal Bank of Canada	Core Networks Incorporated - Debentures	300,000.00	300,000.00
21-Nov-2002	3 Purchasers	CSI Wireless Inc. - Units	4,150,501.20	3,192,309.00
15-Nov-2002	Robert Earl Storie	Diamond Energy Services Inc. - Common Shares	100,002.50	30,770.00
14-Nov-2002	Brenda Aroz & Frank Aroz	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
14-Nov-2002	John Riverin	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
14-Nov-2002	H. Lakusta	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Robert Davis	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Steve Hauck	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	John & Maureen MacLeod	Discovery Biotech Inc. - Common Shares	10,500.00	3,500.00
14-Nov-2002	Denis Veillette	Discovery Biotech Inc. - Common Shares	1,800.00	600.00

14-Nov-2002	Marcel Prevost	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
14-Nov-2002	Roy Pearn	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Michael Herbert & Linda Jean Murray-Herbert	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Edward Chechak	Discovery Biotech Inc. - Common Shares	4,500.00	1,500.00
14-Nov-2002	Helen Arnold	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Julius Losonci	Discovery Biotech Inc. - Common Shares	6,000.00	2,000.00
14-Nov-2002	Caroline Thornton	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Paul Meadows	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
14-Nov-2002	Aaron Klassen	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Douglas G. Howell	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Chris Cashin	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Richard Larivee	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
14-Nov-2002	Tom Omazic	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Robert B. Thornton	Discovery Biotech Inc. - Common Shares	4,500.00	1,500.00
14-Nov-2002	C.G. Cleaning Service Ltd.	Discovery Biotech Inc. - Common Shares	4,500.00	1,500.00
14-Nov-2002	Rosendale Farms Limited	Discovery Biotech Inc. - Common Shares	9,000.00	3,000.00
14-Nov-2002	Starr White	Discovery Biotech Inc. - Common Shares	6,000.00	2,000.00
14-Nov-2002	West Hill Tire & Auto Inc.	Discovery Biotech Inc. - Common Shares	4,500.00	1,500.00
14-Nov-2002	John Shirley	Discovery Biotech Inc. - Common Shares	10,500.00	3,500.00
14-Nov-2002	Garry Lavender	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Salvatore Marando	Discovery Biotech Inc. - Common Shares	1,500.00	500.00

14-Nov-2002	Richard Sayers	Discovery Biotech Inc. - Common Shares	7,500.00	2,500.00
14-Nov-2002	George Schrijver	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Larry E. Palmby	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
14-Nov-2002	David Russell	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	George C. Bowen	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Klaus Bach	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
14-Nov-2002	Donna Bach	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
14-Nov-2002	Ray Willis	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Kirk Murray	Discovery Biotech Inc. - Common Shares	6,000.00	2,000.00
14-Nov-2002	Mike Vonella	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Ron Tauber	Discovery Biotech Inc. - Common Shares	7,500.00	2,500.00
14-Nov-2002	Fred Chambers	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
14-Nov-2002	Zenko Doszczyn	Discovery Biotech Inc. - Common Shares	4,500.00	1,500.00
14-Nov-2002	Gerry Ferguson	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Michael Aprile	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Michael Keenan	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
14-Nov-2002	Stan Buksak	Discovery Biotech Inc. - Common Shares	23,100.00	7,700.00
14-Nov-2002	Canadian Yacht Rebuilders Inc.	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Dave Weber	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
14-Nov-2002	Jeffrey G. Mcllister	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Rene Byvank	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00

14-Nov-2002	Richard Zbarsky	Discovery Biotech Inc. - Common Shares	6,000.00	2,000.00
14-Nov-2002	Franca Severino	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Vandana Nagpal-Shaw	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
14-Nov-2002	Walter Wegner	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Garry Dietz Jr.	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Greg Lounsbury	Discovery Biotech Inc. - Common Shares	3,000.00	1,000.00
14-Nov-2002	Robin Tinney	Discovery Biotech Inc. - Common Shares	6,000.00	2,000.00
14-Nov-2002	Seabouz	Discovery Biotech Inc. - Common Shares	6,000.00	2,000.00
14-Nov-2002	Cynthia B. Fusee	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
14-Nov-2002	Gregory E. Parker & Suzanne M.M Parker	Discovery Biotech Inc. - Common Shares	1,500.00	500.00
20-Nov-2002	6 Purchasers	Dynamic Fuel Systems Inc. - Common Shares	244,875.00	326,500.00
25-Nov-2002	New Millennium Venture Fund Inc.	eStation Network Services, Inc. - Debentures	500,000.00	1.00
19-Nov-2002	9 Purchasers	Galazar Networks Inc. - Shares	8,154,009.00	11,346,374.00
22-Nov-2002	MDS Inc.	Hemosol Inc. - Warrants	0.00	1.00
20-Nov-2002	Cinram International Inc.	HSBC Short Term Investment Fund - Shares	1,000,000.00	99,743,659.00
20-Nov-2002	5 Purchasers	Impact Energy Inc. - Flow-Through Shares	3,060,000.00	1,700,000.00
15-Nov-2002	Haron Ezer	Innova Energy Ltd. - Common Shares	50,000.00	60,241.00
04-Nov-2002	Douglas R. Favell;Elda Paliga	Kelso Technologies Inc. - Common Shares	60,000.00	1,727,590.00
14-Nov-2002	Alexander Urban Andechs	Lydia Diamond Explorations of Canada Ltd. - Common Shares	105,000.00	105,000.00
18-Nov-2002	VentureLink Fund Inc.;The VenGrowth II Investment Fund Inc.	Meriton Networks Canada Inc. - Shares	2,950,377.50	13,791,821.00
18-Nov-2002	4 Purchasers	Meriton Networks Inc. - Shares	1,558,691.60	10,929,369.00
20-Nov-2002	New Generation Biotech (Equity) Fund Inc.	Millenium Biologix Inc. - Shares	5,000,000.00	2,222,222.00

23-Nov-2002	Cotyledon Capital Inc.	Neteka Inc. - Convertible Debentures	250,000.00	250,000.00
18-Nov-2002	6 Purchasers	Outlook Resources Inc. - Convertible Debentures	96,000.00	96,000.00
22-Nov-2002	Casurina Limited Partnership;Tuscarona Investment Management Inc.	RayCal Energy Inc. - Common Shares	300,000.00	300,000.00
27-Nov-2002	13 Purchasers	Second World Trader Inc. - Derivative	4,650.00	32.00
21-Nov-2002	24 Purchasers	Stealth Minerals Limited - Common Shares	995,000.00	3,980,000.00
21-Nov-2002	N/A	Strike Minerals Inc. - N/A	50,000.00	333,333.00
13-Nov-2002	11 Purchasers	TriQuest Energy Corp. - Common Shares	4,299,999.70	2,400,000.00
19-Nov-2002	Royal Bank of Canada;Trudell Medical Limited	Viron Therapeutics Inc. - Convertible Debentures	205,000.00	205,000.00

NOTICE OF INTENTION TO DISTRIBUTE SECURITIES AND ACCOMPANYING DECLARATION UNDER SECTION 2.8 OF MULTILATERAL INSTRUMENT 45-102 RESALE OF SECURITIES - FORM 45-102F3

Seller	Security	Number of Securities
Douglas O. Vandekerkhove	ACD Systems International Inc. - Common Shares	20,000.00
Palm American Investments Inc.	Allegiance Equity Corporation - Common Shares	750,000.00
Discovery Capital Corporation	CardioComm Solutions Inc. - Common Shares	1,440,500.00
Ralph Sickinger	Carma Financial Services Corporation - Common Shares	785,000.00
Viceroy Resource Corporation	Channel Resources Ltd. - Common Shares	7,076,850.00
John H. Kruzick	DRC Resoures Corporation - Common Shares	404,900.00
Hector Davila Santos	First Silver Reserve Inc. - Common Shares	135,000.00
Forum Financial Corporation	Genterra Investment Corporation - Shares	100,000.00
1257755 Ontario Inc.	Husky Injection Molding Systems Ltd. - Common Shares	54,326.00
George Theodore	Infolink Technologies Ltd. - Common Shares	5,368,550.00
Targa Group Inc.	Plaintree Systems Inc. - Common Shares	11,904,665.00
DKRT Family Corp.	The Thomson Corporation - Common Shares	100,000.00
560050 Alberta Ltd.	Wenzel Downhole Tools Ltd. - Common Shares	1,000,000.00

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Chapter 11

IPOs, New Issues and Secondary Financings

Issuer Name:
Chemtrade Logistics Income Fund
Principal Regulator - Ontario
Type and Date:
Preliminary Short Form Prospectus dated December 4th, 2002
Mutual Reliance Review System Receipt dated December 5th, 2002
Offering Price and Description:
C$41,040,000 - 3,040,000 Subscription Receipts, each representing the right to receive one Trust Units
and
C$41,000,000
10.0% Extendible Convertible Unsecured Subordinated Debentures
Price C$13.50 per Subscription Receipt
Underwriter(s) or Distributor(s):
CIBC World Markets Inc.
Scotia Capital Inc.
RBC Dominion Securities Inc.
First Associates Investments Inc.
Promoter(s):
-
Project #500020

Issuer Name:
Eldorado Gold Corporation
Principal Regulator - British Columbia
Type and Date:
Preliminary Short Form Prospectus dated December 9th, 2002
Mutual Reliance Review System Receipt dated December 9th, 2002
Offering Price and Description:
Cdn$32,000,000 - 20,000,000 Units @ $1.60 per Unit
Underwriter(s) or Distributor(s):
Yorkton Securities Inc.
Sprott Securities Inc.
TD Securities Inc.
BMO Nesbitt Burns Inc.
National Bank Financial Inc.
Research Capital Corp.
Haywood Securities Inc.
Promoter(s):
-
Project #500815

Issuer Name:
Musicrypt Inc.
Type and Date:
Preliminary Prospectus dated November 29th, 2002
Receipt dated December 5th, 2002
Offering Price and Description:
Minimum: $ * Through the issuance of * Units
Maximum: $2,250,000 Through the issuance of 3,000,000 Units @ $0.75 per Unit
Underwriter(s) or Distributor(s):
Octagon Capital Corporation
IPC Securities Corporation
Promoter(s):
John Heaven
Clifford Hunt
Project #500002

Issuer Name:
NQL DRILLING TOOLS INC.
Principal Regulator - Alberta
Type and Date:
Preliminary Short Form Prospectus dated December 9th, 2002
Mutual Reliance Review System Receipt dated December 9th, 2002
Offering Price and Description:
$21,450,000 - 3,000,000 Common Shares @ $7.15 per Common Share
Underwriter(s) or Distributor(s):
Sprott Securities Ltd.
FirstEnergy Capital Corp.
National Bank Financial Inc.
Dundee Securities Corporation
Promoter(s):
-
Project #500835

Issuer Name:
Paramount Energy Trust
Principal Regulator - Alberta
Type and Date:
Second Amended and Restated Preliminary Prospectus dated December 9th, 2002
Mutual Reliance Review System Receipt dated December 10th, 2002
Offering Price and Description:
Distribution by Paramount Resources Ltd. as a Dividend-in-Kind of 9,909,767 Trust Units of Paramount Energy Trust
-and-
Issue of 29,729,301 Rights to Subscribe for up to 29,729,301 Trust Units of Paramount Energy Trust at a price of
$5.05 per Trust Unit.
Underwriter(s) or Distributor(s):
BMO Nesbitt Burns Inc.
CIBC World Markets Inc.
FirstEnergy Capital Corp.
Promoter(s):
Paramount Resources Ltd.
Project #472327

Issuer Name:
The Toronto-Dominion Bank
Principal Regulator - Ontario
Type and Date:
Preliminary Short Form Shelf Prospectus dated December 5th, 2002
Mutual Reliance Review System Receipt dated December 5th, 2002
Offering Price and Description:
$ * - Debt Securities (subordinated Indebtedness)
Common Shares
Class A First Preferred Shares
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #500218

Issuer Name:
Forest Gate Resources Inc.
Principal Regulator - Quebec
Type and Date:
Amendment dated December 3rd, 2002 to Prospectus dated August 30th, 2002
Mutual Reliance Review System Receipt dated 9th day of December, 2002
Offering Price and Description:
Minimum Of $862,500 to Maximum of $1,500,000 - Up to 10,000,000 Units at $0.15 per Unit
Up to 2,100,000 Flow-Through Common Shares at $0.20 per Share
Underwriter(s) or Distributor(s):
Georgia Pacific Securities Corporation
Promoter(s):
Michael C. Judson
Project #463483

Issuer Name:
Mackenzie Ivy RSP Global Balanced Fund
Principal Regulator - Ontario
Type and Date:
Amendment #1 dated December 2nd, 2002 to Simplified Prospectus and Annual Information Form dated July 29th, 2002
Mutual Reliance Review System Receipt dated 10th day of December, 2002
Offering Price and Description:
(Series A, F, I and O Units)
Underwriter(s) or Distributor(s):
Mackenzie Financial Corporation
Promoter(s):
Mackenzie Financial Corporation
Project #464013

Issuer Name:
Mackenzie Universal Select Managers Fund
Mackenzie Universal World Balanced RRSP Fund
Principal Regulator - Ontario
Type and Date:
Amendment #3 dated December 2nd , 2002 to the Amended and Restated Simplified Prospectuses dated February 15th, 2002 , amending and restating the Simplified Prospectus December 27th, 2001.
Amendment #4 dated December 2nd , 2002 to the Amended and Restated Annual Information Forms dated February 15th, 2002, amending and restating the Annual Information Forms December 27th, 2001.
Mutual Reliance Review System Receipt dated 9th day of December, 2002
Offering Price and Description:
(Series A, F, I and O Units)
Underwriter(s) or Distributor(s):
Mackenzie Financial Corporation
Cundill Funds Inc.
Peter Cundill & Associates Ltd.
Promoter(s):
Mackenzie Financial Corporation
Project #403456

Issuer Name:
Mackenzie Universal RSP Select Managers USA Fund
Principal Regulator - Ontario
Type and Date:
Amendment #2 dated December 2nd , 2002 to the Amended and Restated Simplified Prospectuses dated February 15th, 2002, amending and restating the Simplified Prospectus December 18th, 2001.
Amendment #4 dated December 2nd , 2002 to the Amended and Restated Annual Information Form dated February 15th, 2002 , amending and restating the Annual Information Form December 18th, 2001.
Mutual Reliance Review System Receipt dated 9th day of December, 2002
Offering Price and Description:
(Series A, F, I and O Units)
Underwriter(s) or Distributor(s):
Mackenzie Financial Corporation
Peter Cundill & Associates Ltd.
Promoter(s):
Mackenzie Financial Corporation
Project #400669

Issuer Name:
Phoenix Matachewan Mines Inc.
Principal Regulator - Ontario
Type and Date:
Amendment #1 dated November 28th 2002, to Prospectus dated October 8th, 2002
Mutual Reliance Review System Receipt dated 6th day of December, 2002
Offering Price and Description:
Reduce the minimum subscription for Flow-Through Units from 100,000 Flow-Through Units ($25,000) to 10,000 Flow-Through Units ($2,500)
Underwriter(s) or Distributor(s):
Union Securities Ltd.
Jones, Gable & Company Limited
Promoter(s):
Robin B. Dow
Project #461440

Issuer Name:
Solar Trust
Principal Regulator - Ontario
Type and Date:
Amended and Restated Short Form PREP Prospectus dated November 26th, 2002
Mutual Reliance Review System Receipt dated 4th day of December, 2002
Offering Price and Description:
$254,761,000 - (Approximate) Commercial Mortgage Pass-Through Certificates, Series 2002-1
Underwriter(s) or Distributor(s):
TD Securities Inc.
Promoter(s):
-
Project #483973

Issuer Name:
Lawrence Enterprise Fund Inc.
Principal Regulator - Ontario
Type and Date:
Final Prospectus dated December 5th, 2002
Mutual Reliance Review System Receipt dated 9th day of December 9, 2002
Offering Price and Description:
(Class A Shares - Series I & II)
Underwriter(s) or Distributor(s):
-
Promoter(s):
Lawrence Asset Management Inc.
CATCA Sponsor Corp.
Project #491754

Issuer Name:
The Consumers' Waterheater Income Fund
Principal Regulator - Ontario
Type and Date:
Final Prospectus dated December 5th, 2002
Mutual Reliance Review System Receipt dated 6th day of December, 2002
Offering Price and Description:
$250,000,000 - 25,000 Units @ $10.00 per Unit
Underwriter(s) or Distributor(s):
Scotia Capital Inc.
CIBC World Markets Inc.
RBC Dominion Securities Inc.
TD Securities Inc.
BMO Nesbitt Burns Inc.
National Bank Financial Inc.
Promoter(s):
Enbridge Services Inc.
Project #489479

Issuer Name:
TSO3 inc.
Principal Regulator - Quebec
Type and Date:
Final Prospectus dated December 3rd, 2002
Mutual Reliance Review System Receipt dated 4th day of December, 2002
Offering Price and Description:
Minimum Offering - $10,000,000 (5,000,000 Units)
Maximum Offering - $17,000,000 (8,500,000 Units)
Underwriter(s) or Distributor(s):
Canaccord Capital Corporation
Dundee Securities Corporation
Promoter(s):
Jocelyn Vezina
Simon Robitaille
Project #490325

Issuer Name:
Acclaim Energy Trust
Principal Regulator - Alberta
Type and Date:
Final Short Form Prospectus dated December 9th, 2002
Mutual Reliance Review System Receipt dated 9th day of December, 2002
Offering Price and Description:
$45,000,000.00 - 11% Convertible Extendible Unsecured Subordinated Debentures
Underwriter(s) or Distributor(s):
Scotia Capital Inc.
BMO Nesbitt Burns Inc.
CIBC World Markets Inc.
FirstEnergy Capital Corp.
TD Securities Inc.
Promoter(s):
-
Project #498743

Issuer Name:
BC GAS INC.
Principal Regulator - British Columbia
Type and Date:
Final Short Form Prospectus dated December 3rd, 2002
Mutual Reliance Review System Receipt dated 3rd day of December, 2002
Offering Price and Description:
5,300,000 Common Shares @ $38.00/Share - $201,400,000
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #496038

Issuer Name:
Canadian Tire Corporation Limited
Principal Regulator - Ontario
Type and Date:
Final Short Form Shelf Prospectus dated December 6th, 2002
Mutual Reliance Review System Receipt dated 9th day of December, 2002
Offering Price and Description:
$750,000,000.00 - Medium Term Notes (Unsecured)
Underwriter(s) or Distributor(s):
BMO Nesbitt Burns Inc.
CIBC World Markets Inc.
Merrill Lynch Canada Inc.
National Bank Financial Inc.
RBC Dominion Securities Inc.
Scotia Capital Inc.
TD Securities Inc.
Promoter(s):
-
Project #493032

Issuer Name:
Canadian Tire Receivables Trust
Principal Regulator - Ontario
Type and Date:
Final Short Form Prospectus dated December 4th, 2002
Mutual Reliance Review System Receipt dated 4th day of December, 2002
Offering Price and Description:
$450,000,000 4.82 % Asset-Backed Senior Notes, Series 2002-1 Expected Repayment Date December 20, 2007
$ 22,500,000 5.88% Asset-Backed Subordinated Notes, Series 2002-1 Expected Repayment Date December 20, 2007
Underwriter(s) or Distributor(s):
Scotia Capital Inc.
CIBC World Markets Inc.
BMO Nesbitt Burns Inc.
RBC Dominion Securities Inc.
National Bank Financial Inc.
TD Securities Inc.
Promoter(s):
Canadian Tire Financial Services Limited
Project #494657

Issuer Name:
Ford Credit Canada Limited
Principal Regulator - Ontario
Type and Date:
Final Short Form Shelf Prospectus dated December 6th, 2002
Mutual Reliance Review System Receipt dated 6th day of December, 2002
Offering Price and Description:
Debt Securities (Unsecured)
Unconditionally guaranteed as to payment of principal, premium, if any, and interest, if any by FORD MOTOR CREDIT COMPANY
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #485328

Issuer Name:
Inter Pipeline Fund (formerly Koch Pipelines Canada, L.P.)
Principal Regulator - Alberta
Type and Date:
Final Short Form Prospectus dated December 6th, 2002
Mutual Reliance Review System Receipt dated 6th day of December, 2002
Offering Price and Description:
$100,000,000.00 - 10% Convertible Extendible Unsecured Subordinated Debentures
Underwriter(s) or Distributor(s):
CIBC World Markets Inc.
Scotia Capital Inc.
National Bank Financial Inc.
RBC Dominion Securities Inc.
BMO Nesbitt Burns Inc.
TD Securities Inc.
Canaccord Capital Corporation
FirstEnergy Capital Corp.
Promoter(s):
-
Project #498741

Issuer Name:
LionOre Mining International Ltd.
Principal Regulator - Ontario
Type and Date:
Final Short Form Prospectus dated December 2nd, 2002
Mutual Reliance Review System Receipt dated 4th day of December, 2002
Offering Price and Description:
Cdn $30,000,000 - 7,500,000 Common Shares @ 4.00 per Common Share
Underwriter(s) or Distributor(s):
RBC Dominion Securities Inc.
Haywood Securities Inc.
Promoter(s):
-
Project #495886

Issuer Name:
Superior Propane Income Fund
Principal Regulator - Alberta
Type and Date:
Final Short Form Prospectus dated December 5th, 2002
Mutual Reliance Review System Receipt dated 5th day of December, 2002
Offering Price and Description:
$250,000,000 - 8.00% Extendible Convertible Unsecured Subordinated Debentures
Underwriter(s) or Distributor(s):
Scotia Capital Inc.
CIBC World Markets Inc.
RBC Dominion Securities Inc.
National Bank Financial Inc.
TD Securities Inc.
BMO Nesbitt Burns Inc.
Canaccord Capital Corporation
Desjardins Securities Inc.
FirstEnergy Capital Corp.
Promoter(s):
-
Project #497080

Issuer Name:
The Maritime Life Assurance Company
Principal Regulator - Nova Scotia
Type and Date:
Final Short Form Prospectus dated December 6th, 2002
Mutual Reliance Review System Receipt dated 6th day of December, 2002
Offering Price and Description:
6.10% Non-Cumulative Second Preferred Shares, Series 3
Underwriter(s) or Distributor(s):
BMO Nesbitt Burns Inc.
CIBC World Markets Inc.
RBC Dominion Securities Inc.
Scotia Capital Inc.
National Bank Financial Inc.
TD Securities Inc.
Promoter(s):
-
Project #497254

Issuer Name:
CIBC Managed Income Portfolio
CIBC Managed Income Plus Portfolio
CIBC Managed Balanced Portfolio
CIBC Managed Balanced Growth Portfolio
CIBC Managed Balanced Growth RRSP Portfolio
CIBC Managed Growth Portfolio
CIBC Managed Growth RRSP Portfolio
CIBC Managed Aggressive Growth Portfolio
CIBC Managed Aggressive Growth RRSP Portfolio
Principal Regulator - Ontario
Type and Date:
Final Simplified Prospectus and Annual Information Form dated December 4th, 2002
Mutual Reliance Review System Receipt dated 6th day of December, 2002
Offering Price and Description:
Mutual Fund Securities Net Asset Value
Underwriter(s) or Distributor(s):
CIBC Securities Inc.
Promoter(s):
Canadian Imperial Bank of Commerce
Project #481642

Issuer Name:
EnerVest Natural Resource Fund Ltd.
Principal Regulator - Ontario
Type and Date:
Final Simplified Prospectus and Annual Information Form dated December 6th, 2002
Mutual Reliance Review System Receipt dated 9th day of December, 2002
Offering Price and Description:
Mutual Fund Securities Net Asset Value
Underwriter(s) or Distributor(s):
EnerVest Management Inc.
Promoter(s):
EnerVest Management Inc.
Project #489940

Issuer Name:
OPTIMA STRATEGY INTERNATIONAL EQUITY VALUE POOL
OPTIMA STRATEGY INTERNATIONAL EQUITY GROWTH POOL
OPTIMA STRATEGY US EQUITY DIVERSIFIED POOL
OPTIMA STRATEGY US EQUITY GROWTH POOL
OPTIMA STRATEGY CANADIAN EQUITY DIVERSIFIED POOL
OPTIMA STRATEGY CANADIAN EQUITY GROWTH POOL
OPTIMA STRATEGY CANADIAN EQUITY SMALL CAP POOL
OPTIMA STRATEGY RSP US EQUITY DIVERSIFIED POOL
OPTIMA STRATEGY RSP INTERNATIONAL EQUITY DIVERSIFIED POOL
OPTIMA STRATEGY RSP GLOBAL FIXED INCOME POOL
OPTIMA STRATEGY REAL ESTATE INVESTMENT POOL
OPTIMA STRATEGY GLOBAL FIXED INCOME POOL
OPTIMA STRATEGY US EQUITY VALUE POOL
OPTIMA STRATEGY INTERNATIONAL EQUITY DIVERSIFIED POOL
OPTIMA STRATEGY CASH MANAGEMENT POOL
OPTIMA STRATEGY SHORT TERM INCOME POOL
OPTIMA STRATEGY CANADIAN FIXED INCOME POOL
OPTIMA STRATEGY CANADIAN EQUITY VALUE POOL
Principal Regulator - Manitoba
Type and Date:
Final Simplified Prospectus and Annual Information Form dated December 4th, 2002
Mutual Reliance Review System Receipt dated 5th day of December, 2002
Offering Price and Description:
Mutual Fund Securities Net Asset Value
Underwriter(s) or Distributor(s):
Assante Capital Management Ltd.
Assante Asset Management Ltd.
Promoter(s):
Assante Asset Management Ltd.
Project #488601

Issuer Name:
Scotia Money Market Fund
Scotia CanAm U.S. $ Money Market Fund
Scotia Canadian Income Fund
Scotia Canadian Balanced Fund
Scotia Canadian Dividend Fund
Scotia Canadian Blue Chip Fund
Scotia Canadian Small Cap Fund
Scotia American Growth Fund
Scotia European Growth Fund
Scotia Pacific Rim Growth Fund
Principal Regulator - Ontario
Type and Date:
Final Simplified Prospectus and Annual Information Form dated November 29th, 2002
Mutual Reliance Review System Receipt dated 4th day of December, 2002
Offering Price and Description:
Scotia Private Client Units @ Net Asset Value per Unit
Underwriter(s) or Distributor(s):
Scotia Securities Inc.
Promoter(s):
The Bank of Nova Scotia
Project #487217

Issuer Name:
Custom Direct Income Fund
Principal Jurisdiction - Ontario
Type and Date:
Amendment to Preliminary Long Form Prospectus dated November 11th, 2002
Withdrawn on December 9th, 2002
Offering Price and Description:
Cdn$ * - * Units @$10.00 per Unit
Underwriter(s) or Distributor(s):
CIBC World Markets Inc.
TD Securities Inc.
Scotia Capital Inc.
Griffiths McBurney & Partners
National Bank Financial Inc.
Promoter(s):
MDC Corporation Inc.
Project #487456

Issuer Name:
The Futura Corporation
Principal Jurisdiction - British Columbia
Type and Date:
Preliminary Prospectus dated September 27th, 2002
Withdrawn on November 29th, 2002
Offering Price and Description:
$ * - * Common Shares
Price: $ * per Common Share
Underwriter(s) or Distributor(s):
Dundee Securities Corporation
Promoter(s):
-
Project #484272

Issuer Name:
Universe2U Inc.
Type and Date:
Preliminary Prospectus dated August 27th, 2002
Closed on December 5th, 2002
Offering Price and Description:
1,459,724 Common Shares
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #476019

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Chapter 12

Registrations

12.1.1 Registrants

Type	Company	Category of Registration	Effective Date
Change of Name	Merchant Capital Wealth Management Corp. Attention: Barbara Ann Vigus 220 Bay Street, 3rd Floor Toronto ON M5J 2W4	From: Practitioners Mutual Planning Inc. To: Merchant Capital Wealth Management Inc.	Oct 01/02
New Registration	Invesco Institutional (N.A.), Inc. Attention: Laurie J. Cook c/o Borden Ladner Gervais LLP 40 King Street West, Suite 4400 Scotia Plaza Toronto ON M5H 3Y4	International Adviser Investment Counsel & Portfolio Manager	Dec 09/02
New Registration	United Capital Securities Inc. Attention: Cathy Singer c/o Ogilvy Renault 77 King Street West, Suite 2100, PO Box 141 Royal Trust Tower, Toronto-Dominion Centre Toronto ON M5K 1H1	Investment Dealer Equities Options Managed Accounts	Dec 10/02

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Chapter 13

SRO Notices and Disciplinary Proceedings

13.1.1 IDA Settlement Hearing - Jayanth Noronha

NEWS RELEASE
For immediate release

NOTICE TO PUBLIC: SETTLEMENT HEARING

IN THE MATTER OF JAYANTH NORONHA

December 06, 2002 (Toronto, Ontario) – The Investment Dealers Association of Canada announced today that a hearing date has been set for the presentation, review and consideration of a Settlement Agreement by the Ontario District Council of the Association.

The Settlement Agreement is between Staff of the Association and Jayanth Noronha and relates to matters for which he may be disciplined by the Association. The conduct of Mr. Noronha, that is the subject of the hearing, occurred during the period between January and May 2000 when Mr. Noronha was a registered representative at the office of Berkshire Securities Inc. located in North York, Ontario.

The proceeding is scheduled to commence at 9:30 a.m. on December 18th, 2002 at the Xchange Conference Centre, 121 King Street West, 17th Floor, Toronto, Ontario. The proceeding is open to the public except as may be required for the protection of confidential matters.

If the Ontario District Council determines that discipline penalties are to be imposed on Mr. Noronha, the Association will issue an Association Bulletin giving notice of the discipline penalties assessed, the regulatory violation(s) committed, and a summary of the facts. Copies of the Association Bulletin and Settlement Agreement will be made available.

The Investment Dealers Association of Canada is the national self-regulatory organization and representative of the securities industry. The Association's mission is to protect investors and enhance the efficiency and competitiveness of the Canadian capital markets. The IDA enforces rules and regulations regarding the sales, business and financial practices of its Member firms. Investigating complaints and disciplining Members are part of the IDA's regulatory role.

For further information, please contact:

Alex Popovic
Vice-President, Enforcement
(416) 943-6904 or apopovic@ida.ca

Jeff Kehoe
Director, Enforcement Litigation
(416) 943-6996 or jkehoe@ida.ca

13.1.2 IDA Settlement Hearing - Jeffrey MacDonald

NEWS RELEASE
For immediate release

NOTICE TO PUBLIC: SETTLEMENT HEARING

IN THE MATTER OF JEFFREY MACDONALD

December 9, 2002 (Toronto, Ontario) – The Investment Dealers Association of Canada announced today that a hearing date has been set for the presentation, review and consideration of a Settlement Agreement by the Ontario District Council of the Association.

The Settlement Agreement is between Staff of the Association and Jeffrey MacDonald and relates to matters for which he may be disciplined by the Association. The conduct of Mr. MacDonald, that is the subject of the hearing, occurred during the period between June 1997 and February 1998 when he was a registered representative at the Scarborough office of ScotiaMcLeod Inc.Inc. (now Scotia Capital Inc.).

The proceeding is scheduled to commence at 9:00 a.m. on December 18th, 2002 at the Xchange Conference Centre, 121 King Street West, 17th Floor, Toronto, Ontario. The proceeding is open to the public except as may be required for the protection of confidential matters.

If the Ontario District Council determines that discipline penalties are to be imposed on Mr. MacDonald, the Association will issue an Association Bulletin giving notice of the discipline penalties assessed, the regulatory violation(s) committed, and a summary of the facts. Copies of the Association Bulletin and Settlement Agreement will be made available.

The Investment Dealers Association of Canada is the national self-regulatory organization and representative of the securities industry. The Association's mission is to protect investors and enhance the efficiency and competitiveness of the Canadian capital markets. The IDA enforces rules and regulations regarding the sales, business and financial practices of its Member firms. Investigating complaints and disciplining Members are part of the IDA's regulatory role.

For further information, please contact:

Alex Popovic
Vice-President, Enforcement
(416) 943-6904 or apopovic@ida.ca

Jeff Kehoe
Director, Enforcement Litigation
(416) 943-6996 or jkehoe@ida.ca

13.1.3 IDA Settlement Hearing - Peter Konidis

NEWS RELEASE
For immediate release

NOTICE TO PUBLIC: SETTLEMENT HEARING

IN THE MATTER OF PETER KONIDIS

December 9, 2002 (Toronto, Ontario) – The Investment Dealers Association of Canada announced today that a hearing date has been set for the presentation, review and consideration of a Settlement Agreement by the Ontario District Council of the Association.

The Settlement Agreement is between Staff of the Association and Peter Konidis and relates to matters for which he may be disciplined by the Association. The conduct of Mr. Konidis, that is the subject of the hearing, occurred in April 1998 when he was a registered representative at the Scarborough office of ScotiaMcLeod Inc.Inc. (now Scotia Capital Inc.).

The proceeding is scheduled to commence at 9:00 a.m. on December 18th, 2002 at the Xchange Conference Centre, 121 King Street West, 17th Floor, Toronto, Ontario. The proceeding is open to the public except as may be required for the protection of confidential matters.

If the Ontario District Council determines that discipline penalties are to be imposed on Mr. Konidis, the Association will issue an Association Bulletin giving notice of the discipline penalties assessed, the regulatory violation(s) committed, and a summary of the facts. Copies of the Association Bulletin and Settlement Agreement will be made available.

The Investment Dealers Association of Canada is the national self-regulatory organization and representative of the securities industry. The Association's mission is to protect investors and enhance the efficiency and competitiveness of the Canadian capital markets. The IDA enforces rules and regulations regarding the sales, business and financial practices of its Member firms. Investigating complaints and disciplining Members are part of the IDA's regulatory role.

For further information, please contact:

Alex Popovic
Vice-President, Enforcement
(416) 943-6904 or apopovic@ida.ca

Jeff Kehoe
Director, Enforcement Litigation
(416) 943-6996 or jkehoe@ida.ca

13.1.4 Notice of Publication - IDA/CSA Market Survey on the Regulation of Fixed Income Markets

NOTICE OF PUBLICATION
IDA/CSA MARKET SURVEY ON THE REGULATION OF FIXED INCOME MARKETS

The Commission and the other members of the Canadian Securities Administrators (CSA) are publishing the results of a survey conducted by Deloitte and Touche on the regulation of the fixed income market. The Investment Dealers Association of Canada (IDA) and the CSA jointly sponsored the survey. The purpose of the survey was to ask industry participants to identify problems or issues in the trading practices of participants in the unlisted debt securities market.

The IDA and the CSA will use the results of the survey to develop and apply field examination modules for dealers trading in the debt market.

The survey results, entitled *IDA/CSA Market Survey on the Regulation of Fixed Income Markets*, and the recommendations and analysis contained in Appendix A to the survey results are attached to this notice.

Questions

If you have any questions about the survey, please contact one of the following persons:

Glenda Campbell
Vice-Chair
Alberta Securities Commission
Phone: (403) 297-4230
E-mail: glenda.campbell@seccom.ab.ca

Louyse Gauvin
Special Adviser to the Chair
British Columbia Securities Commission
Phone: (604) 899-6538
E-mail: lgauvin@bcsc.bc.ca

Randee Pavalow
Director, Capital Markets
Ontario Securities Commission
Phone: (416) 593-8257
E-mail: rpavalow@osc.gov.on.ca

Tracey Stern
Legal Counsel, Market Regulation
Ontario Securities Commission
Phone: (416) 593-8167
E-mail: tstern@osc.gov.on.ca

Ann Leduc
Manager, Policy
Commission des valeurs mobilières du Québec
Phone: (514) 940-2199, ext. 4572
E-mail: ann.leduc@cvmq.com

Larry Boyce
Vice-President, Sales Compliance and Registration
Investment Dealers Association
Phone: (416) 943-6903
E-mail: lboyce@ida.ca

December 13, 2002

13.1.5 IDA/CSA Market Survey on Regulation of Fixed Income Markets

IDA/CSA MARKET SURVEY ON REGULATION OF FIXED INCOME MARKETS

July 16, 2002

Deloitte & Touche

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I. EXECUTIVE SUMMARY

Objective of Survey

The objective of the survey of Canadian debt market participants and regulators is to identify whether any problems or issues exist in the trading practices of participants in the unlisted debt markets in Canada. The survey results will be used in identifying what the major regulatory issues in the debt markets are and will be used by regulators as a basis to develop field examination modules for the debt market. This report represents the outcome of the survey. It sets out market participants' views on market integrity and an appropriate regulatory framework for Canadian debt markets.

Process

To meet the requirements of this engagement, Deloitte & Touche LLP ("D&T") began by working with the Project Steering Committee ("PSC") appointed by the Investment Dealers' Association of Canada ("IDA") and Canadian Securities Administrators ("CSA") to confirm project objectives, timelines and deliverables. We then worked with the PSC to develop a survey to be used in the process of interviewing market participants and regulators. We sought the input of the Capital Markets Committee of the IDA ("CMC") and the Bond Market Transparency Committee ("BMTC") in the development of the survey.

We sought the answers to the survey from 29 market participants and regulators through 33 surveys, interviews and focus groups. The debt market participants interviewed included representatives from securities dealers, institutional investors, issuers, inter-dealer brokers, retail market participants, industry committees, Alternative Trading Systems ("ATSs") and regulators (see Section III of report for specific breakdown). For the majority of participants, we were able to conduct in person interviews. Interviewees were assured that individual responses would be kept confidential and that comments would not be attributable so as to encourage openness in the survey process.

Findings

Our findings have been categorized into two groups: Priority Findings represent the key findings in the area of market integrity and other areas that will provide focus and direction to the IDA or other regulatory body in the development of examination procedures. The second category of findings, called Secondary Findings, represents the other findings from the survey which are not directly related to the main objective of the survey, but which were raised by interviewees in response to the questions in the survey.

Priority Findings – Market Integrity

1. Overall Market Integrity

Concerns about market integrity are minor, although a minority of respondents expressed concerns about certain sharp trading practices and client confidentiality. A majority of respondents rate market integrity in the wholesale market as good, and most market participants feel market integrity has improved in recent years. A minority have some reservations about the fairness of the market, but generally do not support expanded regulation as a response.

2. IDA Policy 5

Policy 5 is seen by the majority of market participants as sufficient for regulating the wholesale fixed income markets. However, this view needs to be considered in light of how familiar market participants really are with respect to the specific details of Policy 5. Outside of some traders in the dealers, it appears that greater education and training efforts are needed on the contents of Policy 5 and any related internal policies.

3. Compliance Reviews

The IDA does not currently conduct compliance reviews focused on debt market trading, which in turn reduces the degree of focus and the resources allocated to debt market activities by in-house compliance departments. In-house compliance functions place little, if any, emphasis on debt market trading. In-house compliance procedures that do exist are not necessarily consistent across firms.

4. Surveillance of the Debt Markets

Respondents do not believe real-time market surveillance is warranted due to lack of concern over debt trading issues and the cost that would be incurred relative to the perceived benefits. A minority supported the use of off-line (after the fact) surveillance reports.

5. Retail Markets

A strong consensus exists that reforms are needed in the retail market. The primary issue is poor transparency, which is increasingly an issue in light of advances in transparency in wholesale markets. Poor transparency can lead to other problems such as unreasonable prices or mark-ups, lack of understanding of the debt markets, and clients' inability to safeguard their own interests.

6. The Complaints Process

Market participants, in particular, institutions, are not aware of any formal channels for communicating their complaints about fixed income markets, especially with respect to market integrity issues. The complaints process that exists is not transparent to market participants.

7. Derivatives

Minimal feedback was received on the derivatives market and more research is required in this area.

Secondary Findings – Market Structure and Regulatory Approach

1. Transparency in the Markets

The market welcomes incremental increases in price transparency. Many market participants believe increases in transparency reduce the need for increased regulation as it makes participants' activity more visible. Incremental increases to transparency should be staged until the optimal level (not necessarily the maximum level) of transparency is reached. Participants oppose increasing volume transparency.

2. Market Liquidity

The priority of market participants is to maintain or improve the current liquidity in the Canadian markets. Liquidity is a concern even though it is considered fairly good given the relative size of the Canadian market as compared to the US market.

3. Market Structure and Innovation

Intermediaries and dealers outside of the bank-owned firms believe that the current market structure makes it difficult for smaller dealers and foreign entrants to compete in the market. According to some interviewees, regulatory barriers and the high degree of concentration in the marketplace have reduced competition and slowed innovation in the Canadian marketplace.

4. Regulatory Approach

A strong consensus exists in favour of maintaining the current regulatory approach to the wholesale debt markets, based on establishing principles of conduct and placing primary reliance on self-policing mechanisms, and against the introduction of more extensive rules and regulatory programs. Most respondents do not see regulatory problems that would justify significant changes in regulation. Market regulation should be improved incrementally, focussing on issues as they arise. Many participants believe improvements in market regulation should begin with specific changes to the IDA's role and activities. Market participants feel that increased, unnecessary and costly regulation will have a negative impact on liquidity and that a cost/benefit analysis of proposed regulation should be performed prior to introducing additional regulation. See the Retail Markets section for comments on the regulatory approach to the retail markets.

5. Jurisdictional Issues

In considering the issue of how all participants in the debt markets might be regulated in a comprehensive manner, survey participants noted two jurisdictional or conflict issues the IDA would face if it were asked to perform such a role. If the IDA were to regulate institutional clients' compliance with market conduct rules, governance and jurisdictional issues would arise. Secondly, similar issues would arise if the IDA were to regulate electronic debt markets, which could extend the IDA's role from "member regulator" to "market regulator".

6. Regulatory Arbitrage

Practically speaking, the risk of dealers avoiding market regulation by moving trading activities into affiliated banks is low. To the extent that such activities are housed there, it appears that the banks would need to agree to be bound by any new IDA requirements, in a similar fashion to Policy 5.

Recommendations

The following recommendations are based only on the survey interview results, complemented by our own expertise. We have not attempted to validate any of the opinions expressed by interviewees. Prior to making recommendations on a broad and complex subject such as regulation of fixed income markets, we would normally conduct significantly more research in order to substantiate our advice.

IDA Policy 5

1. The IDA's rules and policies, as set out in Policy 5, should continue to formally apply only to IDA member firms. Steps should be taken to ensure that the institutional investors are familiar with the principles in Policy 5 and agree to observe them. The principles of Policy 5 should be incorporated into institutions' internal codes of ethics and compliance policies, to the extent the principles apply to the trading activities of non-dealers.

2. A process should be established for ongoing assessment of the need for changes to Policy 5. All stakeholders should be involved in the assessment, including institutional investors.

Reporting and Surveillance

3. There is no demonstrated need for real-time market surveillance. The usefulness of exception reports for market surveillance purposes based on existing trade reporting requirements should be examined, and based on the results, could be expanded as trade reporting expands with the development of electronic trading through ATSs and similar trading platforms.

Retail Investors

4. The IDA should take three initiatives to address the issue of retail prices and mark-ups:

    4.1 The IDA should establish a process to address the need for a rule or policy on pricing and mark-ups on debt securities sold to retail clients.

    4.2 The IDA should amend the standards for supervision of retail accounts to specifically address sales of debt securities and mark-ups.

    4.3 The IDA should establish a policy requiring all member firms to have internal policies and procedures in place to govern mark-ups on debt securities, as well as procedures for the supervision of such activity.

5. The CSA and IDA should establish a process to address the need to improve transparency of debt market prices at the retail level.

Fixed Income Derivatives

6. We believe it is premature to address the fixed income derivatives market until decisions have been made on the approach to regulation of the cash markets.

Role of the IDA

7. The IDA should take steps to clarify its role in the fixed income markets, to increase its presence with market participants, and to make targeted improvements to its regulatory functions to address debt market issues.

    7.1 Compliance with Policy 5 should be administered by the IDA's Member Regulation Department.

    7.2 The IDA should expand their compliance reviews to more fully encompass the debt market activities of members, including the development of a trade desk module for fixed income trading. The IDA's reviews should address specific issues in retail sales of debt securities.

    7.3 The IDA should establish a clearer complaint process relating to debt market activity for institutional investors and members. The process should be clearly communicated to all market participants.

Regulatory Approach

8. We recommend that the current principles-based approach to regulating the wholesale debt markets be maintained, subject to targeted improvements that will introduce elements of a more proactive, rules-based approach in specific

areas. These areas, including several set out in these recommendations, should be selected based on demonstrated need or on principles of sound regulatory oversight. We do not recommend that an expansive set of codified rules be introduced to regulate the debt markets; reliance should continue to be placed on the principles set out in IDA Policy 5. The market regulation regime adopted must also recognize changes in market structure that are occurring as a result of the introduction of electronic trading systems and on-line brokerage services. The regulatory regime needs to address the entire market, not just the traditional market structure, and should do so in an integrated fashion.

9. The CSA should engage in broader consultations with other regulators, IDA and the securities industry going forward when considering changes to regulatory requirements governing fixed income markets. The regulators should also establish a framework to analyze the cost of proposed new rules and regulatory processes so that the costs are appropriately analyzed prior to any policy decisions being made towards the implementation of new regulatory requirements.

II. PROJECT BACKGROUND & OBJECTIVE

Background

National Instrument 21-101 Marketplace Operation and National Instrument 23-101 Trading Rules were issued in final form on November 2, 2001. The rules focus on market transparency by requiring market information to be supplied to an information processor. That information processor will collect and disseminate order and trade information in real time (or close to real time) and distribute it to information vendors, news agencies and other customers. CanPX has applied to become an information processor for unlisted debt securities.

The rules also require all ATSs, inter-dealer brokers and dealers trading unlisted debt securities to enter into a contract with a "regulation services provider" to ensure market integrity and compliance with trading rules. An exemption from this requirement is in place until December 31, 2003 for those ATSs, inter-dealer brokers and dealers that comply with IDA Policy 5.

Until the date on which the exemption expires, the CSA and the IDA are working with debt market participants to evaluate an appropriate structure for the regulation of the Canadian unlisted debt market. The CSA and IDA decided to conduct a survey of market participants and other stakeholders to identify and address any market integrity issues for input into the determination on additional steps that may need to be taken to regulate the unlisted debt market effectively.

The CSA and IDA engaged D&T to carry out the survey of market participants to identify market integrity issues and/or problems in trading practices in the Canadian debt markets. D&T was selected as an impartial third party engaged to collect and report on the information obtained from market stakeholders.

Objective

The objective of the survey of Canadian market participants and regulators is to identify if any problems or issues exist in the trading practices of participants in the unlisted debt market in Canada. This report represents the outcome of the survey. It sets out market participants' views on market integrity and an appropriate regulatory framework for Canadian debt markets.

The focus of this exercise and report is on the secondary bond markets; in particular government and corporate bonds. Although not the focus, comments were also received on the primary markets and derivative markets. However, virtually no comments were received about short-term instruments such as commercial paper and money market instruments.

The survey focused on the activities of all market participants, not just the activities of regulated dealers. The debt market participants interviewed included representatives from securities dealers, institutional investors, issuers, inter-dealer brokers, retail market participants, ATSs, industry committees and regulators. The IDA, the CSA and the two bond market committees were all involved in selecting the appropriate cross section of interviewees and determining survey content.

This report identifies priority and secondary findings and perceived problems with respect to market integrity and the regulation of the debt markets in Canada.

III. SURVEY AND REPORTING PROCESS

Approach

To meet the requirements of this engagement, D&T utilized the following four-step process:

Step 1 - Planning

In the planning phase, we worked with the appointed PSC to confirm project objectives, timelines, and deliverables.

Step 2 – Survey Development

We utilized a consultative approach in the development of the survey. We worked directly with the PSC and obtained input from the CMC and the BMTC to develop a survey that identifies and addresses the market issues from multiple perspectives.

Step 3 - Market Research

We utilized a structured interview approach to survey the market participants. We assured all interviewees that interview results would be kept confidential so as to encourage a frank, open discussion on potential issues in the market.

Step 4 – Reporting

This report compiles our findings and identifies key themes and perceived risks with respect to market regulation of the debt markets in Canada.

Profile Of Those Surveyed

	No. of Participant Organizations	No. of Survey Responses	Departments
Buy Side	5	5	— Portfolio Managers
Sell Side	7	11	— Traders — Compliance — Management/Directors — Private Client Group Management
Committees	3	3	— Capital Markets Committee of the IDA — Bond Market Transparency Committee — Legal and Compliance Committee of the IDA
Inter-Dealer Brokers	1	1	— Management — Broker
Retail*	5	5	— Management of online broker(s) — Private Client Group Management — Individual retail investors — Compliance Officers
Issuers	3	3	— CFO — Directors
Regulators	5	5	— Various
Total	**29**	**33**	

* Note: During the survey process, we were able to obtain a significant amount of information on the retail perspective through interviews with wealth management staff, in-house compliance staff and on-line brokers in addition to the retail investor interviews conducted.

Note: Two of the regulators and one retail investor answered the survey in writing as opposed to a formal interview.

IV. SURVEY FINDINGS

Introduction

The following survey findings are grouped into two categories. The first category of findings, called Priority Findings, represents the key findings in the area of market integrity and other areas that will provide focus and direction to the IDA or other regulatory body in the development of examination procedures. The second category of findings, called Secondary Findings, represents

the other findings from the survey which are not directly related to market integrity, but that were widely raised by interviewees in response to the questions in the survey. Secondary findings are mainly in the areas of Market Structure and Regulatory Approach.

Priority Findings – Market Integrity

1. Overall Market Integrity

The focus of the survey process was to identify whether market integrity issues exist in Canadian secondary fixed income markets. Based on the results of our interviews, a majority of market participants view market integrity as good, although a minority expressed concerns about specific trading practices, as noted below. Very few examples of abuses or violations of market integrity were cited in the interviews. Market integrity problems seem to be irregular events rather than frequent or ongoing problems.

Some of the smaller dealers and one of the buy side participants hold an opposing view to the one above. However, upon probing the issues it was determined that these parties are generally more concerned with the fairness of the market in terms of their relative market power. They cited market structure issues such as transparency, conflict of interest issues relating to the IDA, access to the IDB market and the dominance of the large banks, over actual market integrity issues. These issues are described in the section on Market Structure.

Large dealers tend to see market integrity as good and improving, as did most institutions. Most were willing to comment on perceived problems such as frontrunning, and problems that existed in the past, such as cornering of markets, which are no longer seen as issues.

To some degree, how the market treats participants seems to vary based on a participant's size and market power. The larger a participant is, the more weight it carries in the market, and the easier it is to impose business sanctions on other market participants in the event it is not treated fairly. For instance, for a period of time, firms may refuse to give business to a dealer, or dealers may give less favourable quotes to an institution, whose practices they object to. Larger players also have access to more information, both on screens and through word of mouth, and so are more aware of market prices and trends, as well as the activities of other participants. Superior information yields more market power and better enables a firm to safeguard its own interests in the marketplace.

1.1 Specific Market Integrity Issues

Interviewees were asked whether there are any market integrity issues or practices related to government and corporate bonds that concern them. As stated above, very few concerns were cited in the interviews. Allocation of fills, priority of client orders, honouring quoted prices and best execution (except on the retail side) were not considered to be issues.

Only two issues were highlighted in the interviews as <u>possible</u> areas of concern:

- Possible occurrence of frontrunning by the dealers, and
- Confidentiality of client orders and positions.

Comments were also made regarding games on broker screens and market manipulation; however, very few interviewees saw problems in these areas.

<u>1.1.1 Frontrunning</u>

Many respondents commented on the issue of frontrunning, although it is not seen as a systemic problem in the market. Interviewees said that it <u>might</u> occur occasionally, but that it is very difficult to differentiate the practice of frontrunning from good risk management on the part of the dealers. Respondents did not provide a clear definition of interpretation of frontrunning, but appear to see it as a market maker using knowledge of a customer's trading intentions or position when making trades or changing quotes. Whether such practices technically constitute frontrunning is unclear, since the term is not defined in Policy 5.

The sell side feels they are accused of frontrunning even when they are not engaging in such activities. The buy side indicated that if you "shop the street" for price quotes, you face the risk of getting frontrunned (or having the dealers trade on the basis of the information provided to them). Also, institutional investors feel that self-policing actions are fairly effective in curbing occurrences of frontrunning, so that it is not a prevalent practice anymore.

It was also stated that with increased transparency in the market, buy side accounts are able to detect frontrunning more easily, should it occur. Therefore, instances of frontrunning should decline as transparency increases.

"Traders are pushing prices up or down based on client calls for quotes or expressions of interest."

When clients ask for a quote or express an interest in a bond it is not equivalent to placing an order; however, this is useful market information that traders may use to position themselves for a possible move in the market. Such positioning can easily occur in a substitute security at the same point on the yield curve. Positioning can be viewed as both acting against the interests of the customer and risk management of the trader's position. The interpretation of the prohibition on frontrunning in Policy 5 is an issue that regulators and the industry (both the buy and sell side) may need to address, based on the feedback received.

Through the course of interviews, it became evident that there is a lack of consensus on whether frontrunning does or does not occur. Participants are also not clear on whether certain dealer actions constitute frontrunning or are really just a function of good risk management on the part of the dealers. Some specific comments made about frontrunning in the interviews were:

"Traders often size up a client and ask if you are a buyer or a seller. During the conversation, the trader goes and takes up the offering on the screen and he calls a market that is a bit higher (in the Inter Dealer Broker ("IDB") market). Dealers claim that if they are aware of a client interest, they need to take a position in the security in order to ensure the ability to provide a fill to the client."

"If a trader isn't in position to fill an order, frontrunning does happen, but then self-policing on the part of clients also takes place to punish the dealer."

"It's a thing of the past."

"Frontrunning may happen in the corporate market, but self-policing kicks in and make the dealers prove their innocence to the buyer, or else the dealer will lose the client."

"It's hard to prove frontrunning, but it seems to happen often. It varies by institution and sometimes by trader."

"Frontrunning does occur, but not consistently. It's hard to determine whether a dealer is trying to manage their risk or is playing games."

"Frontrunning exists as a defensive tactic more than anything else, but it's on the decline because customers realize you cannot call too many dealers for quotes anymore."

In summary, as frontrunning is not formally defined in IDA Policy 5, market participants are left to their own perceptions of what constitutes frontrunning. Additionally, if they believe frontrunning occurs, buy side accounts can use self-policing mechanisms to punish perceived offenders.

1.1.2 Client Confidentiality

Client confidentiality refers to dealers and their traders maintaining the privacy of their clients' identity on orders and trades, and their clients' positions in the market. Interviewees' opinions differed on whether maintenance of client confidentiality is an issue, with some seeing a high number of breaches of confidentiality and others not. Buy side interviewees generally take the position that if you wish to maintain confidentiality about your business, then you should tell the dealers as little as possible and be careful not to "shop the street". As such, it seems buy side clients anticipate confidentiality being a problem if they disclose too much to the dealers. They respond by not disclosing too much, which limits the scope of the problem.

"… a pension fund north of the 401 has a huge exposure to this part of the curve…"

" You hear too many names being dropped."

One dealer indicated that dealers do not need to violate client confidentiality because they can tell who holds and who trades what bonds based on the fact that they know the markets so well. Dealers also indicated that a breach of client confidentiality is a fireable offence in their organizations.

It must be noted that dealers are not the only parties to violate the duty of confidentiality. Some dealers indicated that buy side accounts are the worst offenders in that they pressure dealers to disclose information about the other side of the transaction or previous trades. Both large and small dealers indicated that they refuse client requests to break confidentiality.

1.1.3 Games on Broker Screens

A few interviewees commented that they cannot always trust the prices on the "broker screens" in that the price may be the price the trader/dealer wants the market to react to. In posting such prices, a dealer runs the risk that the bonds will get "lifted",

but may still take the chance in an attempt to move the market. There is another check on such activity – if other traders' prices do not change as well, then the trader attempting to influence the direction of the market will appear out of line.

"CanPX is a "portrait" system, where you can paint a picture so that your competitor doesn't know what you are up to…"

1.1.4 Market Manipulation

Significantly, very few interviewees provided examples of market manipulation and the almost unanimous view is that manipulation is a thing of the past. Past problems with market corners were noted by some respondents.

A couple of isolated examples of manipulative actions were cited. One interviewee said dealers sometimes make trades to force the price of an underlying bond through an options exercise price, thus enabling the call holder to exercise their option to buy the bonds at that price. Otherwise, the call would have expired worthless. Another example provided was the practice of a dealer widening the spread between similar Canada and US bonds so the dealer can obtain greater profit when a client's hedge position is rolled forward (it costs more for the hedge due to a wider spread). The dealer would claim to be managing risk but this could also be viewed as manipulation.

1.2 Other Issues

1.2.1 Complaints Received by Dealers

Complaints from institutions are generally dealt with as a business issue by the dealers, and not dealt with by the compliance department. Dealers reported they rarely receive complaints on the institutional side and when they do they usually relate to disputes about trade details. Most large dealers use tapes so that they can be reviewed in the event of a complaint. However, it was stated that tapes don't often prove useful, as in a client-focused market such as the debt market, the client wins, whether right or wrong.

1.2.2 Primary Markets

Several people commented on information flow from the syndication/underwriting side of the dealers to trading, resulting in traders moving markets to influence prices quoted to issuers for new issues. They said that Chinese walls between trading and investment banking are not effective in debt securities. One interviewee said regulation was needed in this area. Only one interviewee commented on a difference between government and corporate finance, indicating that the problem is much worse in the government finance area.

"Basically, there is full disclosure between government finance and trading".

Other than the preceding quote, respondents did not make a distinction between government financing and corporate underwriting, indicating the problem arises in both areas. As such, this issue may require further investigation.

Summary

Market integrity is not seen as a problem by a majority of market participants. Some gamesmanship appears to continue in quoting markets in order to influence market moves or to improve the trader's position. It is unclear whether market makers' positioning and risk management actions in response to expressions of interest by clients are a violation of Policy 5 or not, because frontrunning is not defined in Policy 5.

Concerns about the confidentiality of clients' orders, trades and positions exist in the market, although it appears that most buy side participants have found their own methods of dealing with potential breaches of confidentiality. Concerns about client confidentiality in the primary market may warrant further investigation.

2. IDA Policy 5

The degree of familiarity with Policy 5 varies, but overall its specific provisions are not well known in the debt markets. Dealers' traders, industry committees and regulators are aware of Policy 5 and are generally familiar with its contents. Most sell side traders seem knowledgeable about the general principles of the Policy, as opposed to specifics. Most buy side institutions are aware the Policy exists, but are not aware of its contents.

It is important to note that the buy side is not very familiar with Policy 5 notwithstanding that Policy 5 states that clients of the dealers are expected to co-operate and abide by its principles.

"…previous attempts were made to encourage the Association for Investment Management and Research ("AIMR") and the Pension Fund Association to incorporate Policy 5 into their policies for members, but little response was received…"

The following feedback on the effectiveness of Policy 5 was obtained from the limited number of respondents who were familiar enough with the Policy to provide an opinion.

The majority of these respondents feel it is a sufficient code of conduct and is an effective tool for regulating the wholesale debt markets. The general principles and guidelines listed in Policy 5 appear to be well-accepted industry practice.

"…Policy 5 is sufficient on the basis that, if you are controlling the ethics of dealers, you are controlling the market."

Four interviewees suggested that Policy 5 would be effective only if enforced by the regulators. Such enforcement of Policy 5 would require the regulators, particularly the IDA, to impose tougher sanctions for serious violations of Policy 5, similar to action that would be taken by the National Association of Securities Dealers ("NASD") or the Securities and Exchange Commission ("SEC') in the United States for violations of US regulations.

However, responding to calls for stronger enforcement of rules where serious violations occur could be difficult due to the vague nature of a number of provisions of Policy 5. Concepts such as frontrunning and market manipulation may require interpretation or definition if they are to be successfully enforced using formal disciplinary processes. If an effective principles-based regulatory model is to be maintained, regulators will be required to strike a careful balance in this area.

Suggested improvements to Policy 5 were limited. The following reflect one-off suggestions by interviewees:

- Be more definitive in terms of practices it prohibits,
- Expand to include the derivatives market,
- Require the taping of internal communications,
- Require record retention and audit trails, and
- Refine indicia of market manipulation.

An interviewee from one of the large dealers feels the general nature of Policy 5 makes it a more effective tool than it would be if prohibited practices were defined. In their view, the broad nature of the document prohibits unethical behaviour in any form (i.e. intent) rather than prohibiting specific actions. The broad principles provide guidance for the market, and more detailed rules of conduct should be covered by internal dealer policies and procedures. Frontrunning was cited as an example. Because frontrunning is difficult to define, it is better to prohibit the whole objective of frontrunning rather than specific trading practices.

"…there would be ways of frontrunning, such as through the use of proxies and interrelated products, that would fall outside the specific definition of frontrunning and hence allow it to go as a non punishable offence…"

The counterview is that by defining specific trading practices that constitute frontrunning, it would be much easier to hold a dealer accountable for frontrunning.

Summary

Policy 5 is seen by the majority of market participants as sufficient for regulating the wholesale fixed income markets. However this view needs to be considered in light of how familiar market participants really are with respect to the specific details of Policy 5. Outside of some traders in the dealers , it appears that greater education and training efforts are needed on the contents of Policy 5 and any related internal policies.

3. Compliance Reviews

3.1 IDA Compliance Reviews

Many member interviewees indicated that the IDA does not review trading desk compliance on the debt side, in contrast to extensive compliance reviews that are performed on the equities desk. Two traders indicated they thought the IDA was supposed to develop such a program for bond desks, but it has not happened. Several members said that they would appreciate increased contact with the IDA, from a regulatory or policy standpoint. Communication with the Bank of Canada is much more extensive.

"…there was an intent that IDA would perform trade desk reviews and dealer reviews for compliance with Policy 5, but it was never carried out."

Some members acknowledged that bond trading and positions may come up in the IDA's standard financial and sales compliance reviews, and could be subject to further investigation; however, there are no procedures specific to debt market trading except a review of policies and procedures under IDA Policy 5.

3.2 In-House Dealer Compliance

In-house dealer compliance departments do not see debt market trading as a high-risk area, unlike equities, and therefore few dealers have detailed compliance policies or dedicated compliance resources in the fixed income area. One reason given for debt trading's relatively low risk status is that there are more regulations and examinations on the equity side. The nature of the product is also a factor: equities are inherently riskier products. Additionally, the IDA's lack of presence in monitoring and enforcing rules and standards for debt markets results in a lack of focus on debt market trading activities by compliance.

Compliance officers stated that some review procedures are performed on the debt market trading activities of their firms, but these procedures were not performed consistently across all firms. Internal enforcement of policies and procedures and related supervisory obligations are also a concern, particularly in smaller dealers where documented procedures and risk management systems in this area may be non-existent.

Compliance procedures that are currently being performed by some dealers include:

- Tracking closing prices for the same bond across different inventories,
- Monitoring personal trading,
- Monitoring positions and closing prices,
- Ensuring traders are properly registered,
- Reviewing trade blotters/previous day's trading,
- Looking for large bid/offer spreads,
- Looking for differences in how bonds are marked to market at end of day,
- Performing internal audits of the debt area,
- Appointing compliance officers responsible for trading desks, and
- Testing audit trails for accuracy.

The lack of industry minimum standards for internal compliance procedures, including areas such as books and records requirements for orders and trades and mark to market procedures, may contribute to compliance departments' lack of attention to debt markets. Internal procedures and compliance monitoring appear to vary widely. The development of industry standards or guidelines in this area might be useful.

Sophisticated risk management systems and programs at the major dealers are reducing such problems in areas such as ticketing and record-keeping by making it more difficult to circumvent procedures. The issues are probably greater in smaller dealers with limited risk management and compliance systems in place.

Compliance departments do not represent the full compliance function in a dealer. Risk management and middle office functions must be considered as the reports that the risk management function examines often cover management of trading and market risk and compliance with internal procedures required to measure such risks. Dealers agreed that internal procedures problems are being eliminated through automation of processes and the more sophisticated risk management systems in the bank-owned dealers, including development of electronic audit trails.

A couple of interviewees with experience working for major US dealers indicated that the compliance programs of the Canadian dealers pale in comparison to those in the US dealers.

Summary

The IDA does not currently conduct compliance reviews focused on debt market trading, which in turn reduces the degree of focus and the resources allocated to debt market activities by in-house compliance departments. In-house compliance functions place little, if any, emphasis on debt market trading. In-house compliance procedures that do exist are not necessarily consistent across firms.

4. Surveillance of the Debt Markets

All but two interviewees saw no need for market surveillance. They felt market surveillance would not be effective in markets that trade on the basis of yield and that insufficient evidence exists of problems that could be identified by market surveillance. In addition, on-line market surveillance would require a trade reporting system, which is viewed as a technology project with a potentially huge price tag. Development of rules and systems necessary to support a market surveillance program is considered to be a very significant, industry-wide investment.

The general market consensus is that any need for market surveillance can be addressed by increased transparency, because with increased transparency participants will be more readily able to identify trading issues on their own. A few interviewees thought that in-house monitoring by internal compliance for certain problems would serve as an effective alternative to external market surveillance.

Additionally, some regulators indicated that they already could obtain most of the data required to construct an audit trail for investigative purposes.

Summary

Respondents do not believe real-time market surveillance is warranted due to lack of concern over debt trading issues and the cost that would be incurred relative to the perceived benefits. A minority supported the use of off-line (after the fact) surveillance reports.

5. Retail Markets

The most prevalent theme in the Canadian fixed income markets based on our interview findings is that the institutional and retail fixed income markets differ significantly in terms of issues. The perception of a need for additional regulation, tailored for the retail market, to address such issues is widespread.

The concerns that were raised regarding the retail markets include:

- Suitability/sales practice issues for the retail investor,
- Concerns over unreasonable prices and/or unfair mark-ups, including lack of disclosure of mark-ups and commissions charged on retail bond sales,
- Lack of transparency in market prices, and
- Lack of understanding of debt markets, including pricing, trading mechanisms and investment risk associated with corporate bonds.

When interviewees were asked about the need to regulate different segments of the fixed income markets differently, the only area where people said separate regulatory frameworks are needed is in the retail markets, primarily in the area of sales practices. IDA Policy 5 is in place as a code of conduct to regulate trading in the wholesale debt markets. Of course specific regulation on conducting business with retail investors exists today, in terms of securities regulation, IDA rules and policies, and IDA member compliance policies and procedures. However, these standards were developed mainly in relation to equity market products and issues, and compliance programs focus mainly on them.

5.1 Suitability

Compliance officers noted that historically, suitability has not been much of an issue in selling debt products to retail clients. However, due to new factors, such as the decrease in government debt issuance and related increase in corporate bond activity, and the desire of retail investors to balance their portfolios with more debt content, suitability may become increasingly important. The institutional bond markets are made up of sophisticated investors who have the technical market knowledge to select appropriate investments to meet their needs and evaluate risk. The retail investor is generally much less sophisticated. The more retail investors invest in fixed income products, the more important suitability will become to the retail investor. With the advent of on-line brokerage services for fixed income products, retail participation is increasing.

For example, one retail investor indicated that bonds are seen as safe havens and uses them for retirement income. However, in the view of this retail investor, after seeing the price on one of his corporate bonds drop significantly, he does not feel that the risk of investing in corporate bonds was adequately explained or reflected in the interest rate on the bond. Additionally, reviews with his broker did not involve as much detail on the bond investments as on the equity investments. The impact of the price decline was increased by the fact that the retail investor does not have access to bond pricing information in order to monitor the price of his bonds and thus protect his own interests. The broker failed to notify this investor of the price decline in a timely manner.

This view was corroborated by one of the dealer respondents, who indicated that with the increase in the variety and complexity of bond products (e.g. foreign bonds) suitability is becoming more important for the retail investor. The retail investors said that to the extent that dealers offer investors advice on corporate bonds, they should be held to higher standards. Two interviewees with specific responsibilities for retail bond sales suggested that higher standards and training in the area of bonds and the debt markets would help to ensure Investment Advisors are better qualified to recommend bond investments to retail investors.

5.2 Price Transparency

Retail investors do not have access to any meaningful level of price transparency or comparative retail price information on bonds. They rely on the prices quoted by their retail brokers. As indicated above, retail investors generally cannot check the prices on bonds on a daily basis as they can with equities. This lack of price transparency contributes to the problem of lack of transparency on mark-ups to retail investors. Retail investors don't know the price of their bonds before the mark-up and therefore cannot determine what the mark-up or commission on their bond is. It also leads to problems with ongoing valuation of bonds owned by the retail investor. If the retail investor does not have access to ongoing price information, they cannot independently determine the market value of their bond investments and

Dealer compliance staff said that it is not necessary for a broker to call clients to advise them of changes in stock prices because clients can track them on their own, but clients cannot track fixed income prices because they are not readily available. Retail investors using on-line brokerage services often have access to prices of certain bonds, but they do not see prices across the whole market, just the price quoted by the dealer. Retail investors do not have general access to bid/offer quotes or trade prices in the market. (There is one ATS that is an exception to the extent that several dealers contribute to its prices.)

As retail participation in the bond markets increases, retail investors will be looking for the ability to obtain more timely valuations on their bond investments, such as end of day pricing. Access to timelier price information will help enable retail investors to safeguard their assets and take immediate action should the value of their bonds decline.

5.3 Mark-ups

Interviewees felt that mark-ups on retail bond sales may require some sort of regulatory intervention. A number of interviewees felt that the current mark-ups being charged are excessive. However, this was more a general impression than a case of having specific evidence. One retail investor interviewed indicated that he is not aware of what the mark-ups and/or commissions on bonds are. Another more sophisticated retail investor felt that mark-ups may be excessive because bonds are marked up at each stage of the transaction process and these mark-ups are not visible to the retail investor.

"There is no risk taken by dealers for the transactions in the retail markets, so why should the costs for retail investors be so high?"

From the perspective of the sell side, certain fixed transaction costs must be covered on the sale of a bond, regardless of the size of the sale, and these costs are covered by the mark-up. Therefore, on the sale of smaller denominations of bonds, these transaction costs account for a greater percentage of the cost of the bond.

Since retail investors do not have access to any meaningful level of price transparency, they cannot determine either the dealer's inventory cost or the current wholesale price of a bond. Retail investors cannot determine the amount of mark-up or commission since trades are confirmed on a net basis and mark-ups and commissions are not disclosed to the retail investor. As a result, retail investors cannot effectively negotiate pricing or mark-ups.

Mark-up grids appear to be in place in a number of larger dealers to provide guidance on mark-ups to Investment Advisors. These grids provide a guideline on mark-ups and are not strictly enforced in-house. The firms generally centralize responsibility for monitoring mark-ups charged in comparison to the mark-up grids. However, grids were not being used in all dealers interviewed. The purpose of the mark-up grids is to communicate minimum, maximum and recommended mark-ups on bonds for Investment Advisors to follow. The suggested mark-ups vary based on the value and term of the bond. One interviewee also stated that his organization provides a choice to the retail broker of charging a commission or a mark-up.

"It's important just to let the retail investor know that mark-ups are not regulated and show the retail investor the wholesale bid/ask vs. the retail bid/ask."

Several compliance officers indicated that mark-ups are reviewed daily by the head of retail sales, the bond desk, or compliance and exception reports may be utilized. Mark-ups may also be reviewed via retail branch reviews and retail compliance surveillance reviews that are intended to cover all client activity.

5.4 Best Execution

Retail investors are purchasing bonds from dealer inventory, and best execution duty is generally not addressed or considered to apply. Retail/wealth management interviewees indicated that there is always the option to go outside their own dealer to purchase bonds for retail clients, but practically speaking, this doesn't occur.

Some of the members' compliance representatives indicated that competition exists on the retail side as retail brokers need to provide the best priced products (yield) or the customers will go elsewhere or buy an alternative product, such as a GIC. Additionally, Investment Advisors may negotiate better prices for bonds on behalf of their clients. However, the principle of best execution is not complied with in the retail markets as bonds are expected to be sold from dealer inventory and as such, no real competition exists.

"Every dealer is a market, so an obligation to canvass other dealers for better prices doesn't exist."

5.5 Complaints

Regulators indicated that complaints from retail investors are rare and when made generally concern suitability issues with respect to high-risk securities.

In the opinion of the dealers, complaints regarding debt market activities generally arise because retail investors do not understand the market and how bonds are priced. Some causes of complaints identified in the interview process included:

- Changes in bond ratings not being properly explained to retail clients,
- Bond mutual funds not being explained properly to retail clients (i.e. investors not understanding why they don't get 5% on the bond fund when the underlying bonds are paying 5%),
- Retail investors not understanding the risks associated with bond funds and income trusts, and
- Retail investors not understanding what they are paying to conduct a transaction (i.e. mark-ups and commissions).

Based on the above observations, interviewees suggested that increased transparency for the retail investor and some further investigation on the issue of retail mark-ups should be considered as part of this exercise.

"…the retail investor may be paying too much for corporate bonds and the average retail investor may not be holding a balanced portfolio that includes bonds due to the lack of price transparency."

Summary

The issue of mark-ups and commissions on bonds for retail investors is an area at risk for abuse. The problem seems to stem primarily from the lack of price transparency to the retail investor. Interviewees recognize this and agree that the concerns over mark-ups should be examined further. It may be possible to encourage self-policing of mark-ups if the prices of bonds, and mark-ups/commissions are visible to the retail investor. However, just how to make prices transparent to the retail investor is an issue in itself.

In summary, the risk of abuse in the retail sector is materially increased by several factors, encompassing market structure, trading practices and sales compliance such as:

- Lack of transparency for retail investors,
- Lack of transparency for retail brokers,
- Lack of compliance with best execution duty,
- Lack of focus from compliance and internal risk management (see Compliance Reviews Section),
- Lack of focus in IDA regulatory activities (see Compliance Reviews Section).

6. The Complaints Process

The large dealers see the IDA's CMC as a useful forum to discuss issues and problems in the bond markets. Institutional clients generally do not raise issues to the CMC, according to members of this committee.

One institution interviewed had raised a complaint to the CMC, which addressed the issue by making a policy change. Apparently the matter was never referred to the IDA Member Regulation Department. After the CMC addressed the matter, the IDA failed to communicate its resolution back to the institution. This case and general feedback on the survey illustrates the lack of a clear process for handling institutions' complaints at the IDA. Suggestions that a better complaints process be instituted at the IDA were received.

Several respondents indicated that they turn to the Bank of Canada with a complaint before turning to the IDA. The Bank often receives the first call from market participants when there is an issue to be resolved in the market (such as complaints on repo transactions, complaints from individual traders, etc.). Market participants indicated that this occurs because the Bank is seen as independent, knowledgeable and consultative in their approach to resolving market issues. The IDA is seen as the voice of the large dealers and is used as a forum to engage the dealers in an issue.

One retail investor we spoke with was unaware of a process for complaints outside complaining directly to his broker or dealer. He was unaware that an issue could be taken to the IDA.

Summary

Market participants, in particular institutions, are not aware of any formal channels for communicating their complaints about fixed income markets, especially with respect to market integrity issues. The complaints process that exists is not transparent to market participants.

7. Derivatives

Very few interviewees commented on the derivatives market. Those that did comment indicated that one must be a sophisticated investor to deal in derivatives. It was also stated that bond market derivatives players are currently not being held to the same standard as the smaller cash players – it is a "buyer beware" environment. Derivative transactions can have an impact on the cash markets but the impact is only visible to players knowledgeable in the derivatives markets.

Certain market integrity issues were identified such as:

"…mini-manipulation may go on in the derivatives market in order to push prices up to the exercise price of derivatives contracts."

"…dealers may attempt to influence spreads by widening spreads between similar Canadian and US bonds so that the dealer can obtain a greater profit on a client's hedge when the position is rolled forward."

One of the market committees suggested that Policy 5 be expanded to cover the derivatives markets.

Summary

Minimal feedback was received on the derivatives market and more research is required in this area.

Secondary Findings – Market Structure and Regulatory Approach

1. Transparency in the Markets

1.1 Price Transparency

Price transparency varies depending on the type of security and on the type of market participant. Government bonds are seen as having good price transparency, but the more illiquid the bond, the less price transparency that exists. The less price transparency, the more sophisticated the investor needs to be to participate in the particular market and the greater the potential for abuse in that market. Survey respondents noted problems with transparency in illiquid issues.

The consensus view, described more fully below, is to increase transparency incrementally to benefit the market in the long run, but without exposing the dealers to too much additional risk, which would likely hurt liquidity.

"As a general rule, when the bond is less liquid, as an investor, you need to be more sophisticated."

"Essentially, the less liquid the bond, the more magnified any problems in the market get."

"Publishing the prices on benchmark bonds would be okay but illiquid bonds are hard to price and are all over the map so trying to quote prices will be too confusing to the investor and often will be quoted in error (for example, the quotes they show in the Globe and Mail are often incorrect)".

Transparency levels also vary based on type and size of participant. For the large dealers, for example, market prices are quite transparent due to access to the IDB market and a range of screens, in addition to information garnered by traders on the phone. Transparency levels diminish through various levels of dealers and institutional investors. At the other end of the spectrum, retail investors have access to minimal, if any, price transparency (as discussed in the Retail Markets section).

The need for increased price transparency was identified as one of the top concerns of about 25% of interviewees. A majority believe that transparency could be further enhanced without a negative impact on liquidity, although large dealers tend to be more satisfied with current levels. All participants agreed that increasing transparency must be carefully managed to gauge the impact on liquidity. Such an improvement in transparency would also result in improved market integrity and ability to self-police the market, and reduce the need for intrusive regulation.

Interviewees often stated that the optimal level of transparency was not necessarily full transparency and that small steps should be taken when increasing transparency so that the effect on the market and the dealers' risk positions could be measured, and to avoid potential damage to the markets by increasing transparency too much. This is particularly true for the corporate bond market, which is already viewed as an illiquid market.

1.2 CanPX and Price Transparency

Opinion is split 60:40 as to the usefulness of CanPX for providing price transparency to the markets. The large dealers are actually less confident than investors that CanPX displays accurate market prices. For instance, prices vary based on the size of order, but CanPX only shows a price for minimal size. If the price on the screen is better than what would be offered for the actual volume to trade, a market maker may be pressured to trade at or close to the price on CanPX, even though the CanPX price is based on a different volume.

Institutional investors and issuers applaud CanPX as being a good source of price transparency and say that market prices are less volatile with CanPX. They like the ability to compare the price a dealer will commit to, to the displayed price. Investors and issuers clearly find the information available today via CanPX much better relative to the situation prior to its introduction. However, statements were made that CanPX only provides partial visibility and may not reflect the current market on a security.

1.3 Volume Transparency

Displaying volume is seen as a barrier to trade. Both sides feel that the buy side will use the telephone market if they are required to disclose trade volumes via an electronic reporting system.

Summary

The market welcomes incremental increases in price transparency. Many market participants believe increases in transparency reduce the need for increased regulation as it makes participants' activity more visible. Incremental increases to transparency should be staged until the optimal level (not necessarily the maximum level) of transparency is reached. Participants oppose increasing volume transparency.

2. Market Liquidity

The top priority issue among market participants is a concern over liquidity in the Canadian debt markets. The Government of Canada bond markets are seen as liquid, provincials less liquid and most corporate bonds as illiquid. A number of interviewees stated that the bond markets are becoming commoditized and that the dealers are not putting as much capital into the market due to narrowing spreads and declining profitability. The increased consolidation in the industry is cited as one of the main causes for decreasing liquidity.

Nevertheless, in relative terms, liquidity in the Canadian market is seen as good given the limited size of the market in Canada compared to the US market. Several participants advocated a move towards increased transparency as a means of improving liquidity and trading volumes, as long as transparency is increased incrementally. On the other hand, a move towards increased regulation of the debt markets concerns many interviewees because they feel it would only serve to reduce liquidity as increased market scrutiny would lead to increased costs and decreased profits, and thus to decreased trading and decreased liquidity.

Summary

The priority of market participants is to maintain or improve the current liquidity in the Canadian markets. Liquidity is a concern even though it is considered fairly good given the relative size of the Canadian market as compared to the US market.

3. Market Structure and Innovation

The Canadian bond markets are dominated by a small group of large dealers or market makers. Some smaller dealers and certain others expressed concerns about the degree of market power exerted by the big market makers. They cited instances of anti-competitive action being taken by the large dealers which makes it difficult for other players and new entrants to gain entry to the market or to obtain the infrastructure needed to become one of the "inside players". An example cited is that smaller dealers cannot gain access to certain ATSs and the IDBs because of the costs of entry and other requirements established by the major dealers.

"Big dealers tried to keep the small dealers from getting access to the screen because the small dealers don't position."

Several interviewees suggested that the development of CanPX was delayed because it was not in the competitive best interests of the large dealers and therefore, the large dealers through their dominant position in the IDA, erected barriers to the development of CanPX. One interviewee commended the OSC for finally pushing this initiative ahead. In contrast, the large dealers see the current market making system working well for customers.

An interesting comment made by about 25% of the participants was that the Canadian bond markets lack innovation in comparison with other markets, especially the US market.

"…the whole movement to "e" platforms has been slowed down by bank-owned dealers…"

A number of disincentives to innovation were noted. For example, consolidation in the industry reduces large dealers' incentives to invest in innovation because they can maintain their dominant positions and profitability in the market without making such commitments. Those willing to invest in innovation would need to forecast a sizeable return on investment, but would need to break into the "inner circle" of dealers that dominate the marketplace in order to successfully capitalize on such investments. However, such comments contradict with major dealers' commitments to ATS and their strategies for increasing automation.

One regulatory interviewee believes that the current regulatory structure in Canada has had a negative impact on innovation in the debt markets.

"The ATS rules, which were intended to be forward looking and helpful, turned out to be an impediment to the development of the market and actually make it more difficult to operate an ATS in Canada."

Additionally, some participants, especially foreign entrants, feel that the regulatory burden in Canada is disproportionate to the perceived opportunity here because of duplication and overlap in the roles of the provincial securities commissions, which creates excessive complexity and regulatory costs.

Summary

Intermediaries and dealers outside of the bank-owned firms believe that the current market structure makes it difficult for smaller dealers and foreign entrants to compete in the market. According to some interviewees, regulatory barriers and the high degree of concentration in the marketplace have reduced competition and slowed innovation in the Canadian marketplace.

4. Regulatory Approach

4.1 Roles of Regulators in the Debt Markets

For the purposes of categorizing respondents and maintaining the confidentiality of responses, we have grouped the Investment Dealers Association, the securities commissions, the Bank of Canada and the Department of Finance as "regulators". It is recognized that the federal institutions are not regulators, but they are widely viewed as important institutions in establishing market standards.

Investment Dealers Association of Canada:

The IDA is seen as the most knowledgeable regulatory body in the debt markets, however market participants, including IDA members, do not view the IDA as a proactive regulator of the bond markets. For instance, IDA compliance examinations do not

focus on debt trading. The firms we spoke to do not remember being subject to a trade desk review, and traders say they have virtually no exposure to IDA staff.

Survey respondents described the IDA's current regulatory approach as reactive, with complaints and issues addressed only as they arise. Problems appear to be dealt with from a policy, as opposed to a regulatory, point of view – for instance, through discussion at the CMC.

Members are split on the IDA's approach: most agree that the IDA's mandate is not to act as a hands-on market regulator, and do not see a need to change its mandate significantly. On the other hand, the majority feel the IDA should increase its presence in the market and that its regulatory activities should address the fixed income market.

Ten respondents made comments specifically about the conflict of interest between the IDA's SRO responsibilities and its industry association status. Institutions and small dealers feel the IDA needs to do a better job of managing this conflict. The large dealers see the IDA as quite effective in its role as currently defined.

In spite of these concerns, 75% of those interviewed who have an opinion on the matter, believe the IDA would be the most suitable regulatory body to regulate the debt markets in Canada if or to the extent that expanded market regulation is needed. The consensus however, is not to expand regulation. The main strengths of the IDA are that the organization understands the market, and that it is a national body. (It is not a recognized SRO in Quebec but nevertheless plays an active role there.)

Bank of Canada ("the Bank"):

The Bank of Canada is almost universally well respected amongst bond market participants for its market knowledge and consultative approach, as well as ongoing communication with traders and executives in keeping track of market activity and trends. The Bank's market monitoring activities rely significantly on this two-way communication and relationships with participants. The Bank conducts market research, closely monitors market activity and developments and applies their knowledge and understanding to help solve market problems. Almost all market participants feel comfortable turning to the Bank as the first resource when issues arise in the market. While the Bank is interested in overall market trends and any unusual activity or market issues, their focus is naturally on the market for Canada bonds.

Department of Finance ("Finance"):

For the purposes of this survey, the Department of Finance is considered in terms of its oversight responsibilities for the Canadian debt markets and not in its role as issuer. Finance maintains an interest in the Canadian fixed income markets similar to that of the Bank, but its presence is less visible. Interviewees did not have regular dealings with Finance, and hence do not see Finance as a major influencer.

The Bank and Finance rely heavily on informal and "behind the scenes" actions, namely moral suasion, to address problems such as market integrity concerns. Consequently, the regulatory process can appear discretionary; it lacks clarity in the rules and transparency in the process. Some market participants feel this approach favours the major market players.

Canadian Securities Administrators:

Apart from the transparency and ATS initiatives, respondents do not feel the commissions play a visible role in the markets. People consider their job mainly as protecting the retail investor. The commissions are not considered to be knowledgeable or experienced in the debt markets. A comment heard frequently is that the CSA has attempted to apply equity market principles to the debt markets.

Many interviewees expressed concerns about the CSA's failure to consult other stakeholders adequately when addressing issues and developing proposals. However, it was noted by some that the CSA is now striving to be more consultative with the market.

4.2 Regulator Best Suited to Take on Lead Role as Regulator for the Debt Markets

The survey asked what regulatory body is best suited to take a lead role as regulator for the debt markets. A majority of respondents (2/3 of those who provided a direct response) favour the IDA as the primary front-line regulator of the debt markets, if an organization is to be designated to perform additional market regulation services. The two main reasons given to support this view were:

- The IDA is a national organization, and
- The IDA understands the debt markets.

The direct involvement of participating firms in the IDA's process was mentioned as a significant source of expertise and practical solutions to problems. A few interviewees favoured the Bank or the CSA for the lead role, but acknowledged this wasn't really practical for various reasons.

A number of participants, especially on the buy side and among small dealers, stated that the IDA must deal with its conflicts of interest in order to become an effective regulator of debt markets. Comments in this area suggested that the IDA has not recognized these conflicts in its processes for handling debt market issues; i.e. there is a perception that its industry association and regulatory policy functions are not separate with respect to debt markets.

It was generally recognized that the CSA, the Bank of Canada and the Department of Finance should continue to be involved in market regulation issues as each has a useful role to play in this area.

The majority of participants and regulators expressed concerns over standards of investor protection for retail investors, and recognized that regulation of the retail side of the bond markets may need to be enhanced. Since the IDA plays the primary front-line role in retail sales compliance, this view reinforces the preference for relying on the IDA to carry out any expanded supervision. The issues surrounding this are discussed in more detail in the Retail Markets section of this report.

4.3 Self-Policing Mechanisms

Over 85% of those who responded indicated that the wholesale debt markets in Canada are largely self-policing and that this mechanism is reasonably effective for regulating the markets. These respondents represent all parts of the institutional fixed income market, including buy side accounts. The only dissenting views on this model came from smaller dealers in the market, which is likely a function of their size – the larger the participant, the greater the ability to employ a self-policing approach by "punishing offenders" by withholding business. Many of the buy side accounts reported withholding business from one or more dealers in the past, but it is not a regular occurrence.

Consolidation in the industry is seen by some as facilitating the self-policing regulatory model in that the fewer the players, the easier it is to identify unethical behaviour in the market because the actions of all players are more visible. In addition, activity is concentrated with major intermediaries that employ advanced risk management and compliance programs. Increased transparency for the wholesale market is also considered to facilitate the effectiveness of self-policing, by making trading activity more visible.

4.4 Regulatory Approach to the Debt Markets

Market participants and the majority of regulators (as defined for this Report) are satisfied with the current regulatory approach to the debt markets. Market participants do not feel sufficient market integrity issues exist to warrant increased regulation. Concerns are widespread over the increased regulatory burden and costs that would flow from the adoption of additional rules and regulatory monitoring and oversight. During interviews, people frequently commented that they did not see any issues or problems that would justify expanded regulation.

In response to the question of whether the current scope of regulation is about right, the majority agreed that it is. A minority stated that improvements could be made. No one felt the markets are over-regulated and only two said they are under-regulated. Several regulators support the position of market participants and view the fact that very few complaints are received from the markets as a sign that all is well. Certain regulators do not support the adoption of new regulations until a persistent problems arises in the market that must be addressed, based on the belief that additional regulation can have unintended consequences for the efficient functioning of the markets and may unnecessarily increase the cost of regulation.

Even those who expressed greater concern about the fairness of the market did not view regulation as an effective response, preferring to rely on structural improvements such as greater transparency and encouraging competition and innovation.

One regulator indicated that the dearth of complaints might be due to the lack of transparency in the market combined with the absence of a central database of prices to compare transactions to.

4.5 Improving the Regulatory Process

Respondents suggest that the current regulatory approach could be improved through:

- Increased consultation with the market participants
- Increased understanding of the debt markets among the securities commissions, and
- Increased contact among the regulators and the dealers.

The last suggestion is primarily aimed at increasing the IDA's involvement with the markets and dealers. Three dealers and two of the committees interviewed specifically suggested that the IDA visit dealers more and take on a more proactive role in keeping tabs on the markets. They also feel the IDA should increase monitoring of compliance with current regulations and rules, and solicit feedback from the market on their performance as a regulator.

4.6 Regulatory Structure in Canada

A prevalent theme expressed by interviewees is their dissatisfaction and concern with the current fragmented regulatory structure in Canada. They are frustrated with duplication and overlap among the provincial securities commissions and strongly favour a national regulator. Interviewees felt that the current regulatory structure in Canada adds costs and complexity to operating in Canada (for example, in the areas of reporting and registering). If one provincial commission signs off on compliance or approves a registration, there is no guarantee that the other provincial commissions will follow suit. This can serve as a barrier to entry and at a minimum increases costs of entry.

A number of respondents commented that the burden is higher for innovative new businesses such as TradeWeb because the practical application of new regulations, such as the ATS rule, is unclear and subject to multiple interpretations. Many see TradeWeb's departure as illustrative of problems with the system.

4.7 Enforcement

Several interviewees stated that market regulation would benefit from increased enforcement action when serious violations are identified. These people view informal and non-public remedies and sanctions as inadequate responses to issues such as market manipulation. Failure to take strong action when "real issues" arise encourages a lax approach to compliance, in their perception.

"The problem in Canada is that there are no criminal charges involved when you break the regulations – you just pay a fine and you're back in business."

"To date there is very little or no disciplinary action on debt trading (e.g. wrist slapping). The OSC is the one who has the disciplinary power but doesn't have the knowledge. The individual dealers have disciplined their own people but not the IDA. Serious violations should be dealt with seriously."

"We need a regulator with the standing machinery and penalizing power to punish those parties that violate."

4.8 Regulatory Burden[1]

The cost of additional regulation is a concern for many debt market participants; for example, if action is taken as a result of this project to increase regulation of the debt markets. The cost of additional regulation refers not only to the direct implementation and operational costs that would be incurred, but also the negative impact on liquidity in the market and the number of players in the market. Essentially, the view appears to be that higher regulatory scrutiny and costs will lead to reduced trading and profitability, leading to decreased liquidity and market efficiency.

In addition, the risk of over-regulation was often cited as a regulatory risk, because of the detrimental effects it may have on the market such as reducing liquidity and driving business out of the country.

"…there is a need to have a quantitative economic analysis (cost/benefit analysis) done of any proposed change to regulation and any regulation should be based on market based incentives rather than be prescriptive regulation."

Summary

The IDA is seen as a knowledgeable but not proactive regulatory body in the debt markets. The Bank of Canada is highly respected for its knowledge of the debt markets and consultative approach to addressing issues and helping to solve market problems. The Department of Finance is seen in much the same light as the Bank, however, much less involved directly in the debt markets. The CSA are seen as having little knowledge and experience in the debt markets.

The current regulatory approach is reactive rather than proactive and principles-based rather than prescriptive. This approach is supported in concept by most regulators and most market participants. Most interviewees do not see a need to change the current regulatory approach to the bond markets (although specific improvements were suggested). The market's self-policing mechanism is considered to be reasonably effective.

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[1] Note: A report by Conference Board of Canada is expected to be released in September regarding the cost of regulation of the debt markets in Canada and should be consulted when released.

Market participants feel that increased, unnecessary and costly regulation will have a negative impact on liquidity and that a cost/benefit analysis of proposed regulation should be performed prior to introducing additional regulation.

According to the majority of respondents, the IDA is the regulatory body best suited to take on any increased regulatory role in the debt markets, if it is determined that more regulation is needed. The fact that Canada currently lacks a national regulator for the capital markets is viewed as a major concern by market participants. Some participants would also like to see increased enforcement of current regulations.

5. Jurisdictional Issues

The issue of whether the rules and principles set out in Policy 5 should apply to institutions trading in the wholesale markets, as well as to member dealers of the IDA, arose in discussions with survey respondents. Some representatives of dealers are of the view that standards of conduct imposed on participants should apply equally to all participants in the wholesale markets, especially since dealers act primarily as principal, not as agent.

However, all recognize that the jurisdiction of the IDA is limited to its member firms, and that any proposal to extend its jurisdiction to non-member participants such as institutional investors would raise complicated issues, including the question of whether the IDA would be the appropriate regulatory body to fulfill such a role. Most participants felt that the IDA could not assume jurisdiction over non-dealers without making fundamental changes to its organization and governance structure, including addressing the perceived conflict of interest between its role as an industry association and its role as a self-regulatory organization.

"The IDA needs to increase their responsiveness to the concerns of institutional accounts."

"The buy side would need input into the IDA governance structure."

Respondents noted that the IDA's role as a self-regulatory body in the Over-The-Counter ("OTC") debt markets is different than a regulator of a centralized market like an exchange. The IDA is regulating the dealer participants in the market (as well as firms performing an agency broker role), as opposed to a central marketplace. As such, its regulatory mandate and activities are different – the rules apply mainly to dealers' conduct. A full-fledged code governing the operation of the marketplace does not exist.

"As long as the IDA is responsible for member regulation, then things work well, but if they deal with market regulation, the IDA's role would be far more compromised and conflicted."

Summary

In considering the issue of how all participants in the debt markets might be regulated in a comprehensive manner, survey participants noted two jurisdictional or conflict issues the IDA would face if it were asked to perform such a role. If the IDA were to regulate institutional clients' compliance with market conduct rules, governance and jurisdictional issues would arise. Secondly, similar issues would arise if the IDA were to regulate electronic debt markets, which could extend the IDA's role from "member regulator" to "market regulator".

6. Regulatory Arbitrage

At the outset of the project, the issue was raised as to whether intermediaries could avoid provincial securities regulation by the CSA and/or IDA regulation of its member firms by moving trading activities from securities dealers into federally regulated institutions. The issue pertains mainly to the banks, which carry on securities-related activities in both the bank and a dealer subsidiary. If jurisdiction shopping did occur, the result would be regulatory arbitrage that would limit the effectiveness of efforts to enhance market regulation.

Very few survey respondents are concerned about regulatory arbitrage. The general view is it is quite unlikely that trading activities would be moved simply in order to circumvent regulatory requirements. In any event, certain banks carry out many fixed income market activities within the bank itself today. Capital requirements, but not securities regulation, are currently a factor in locating capital-intensive operations. One of the market committees interviewed did indicate that trading activities could be moved if costly and excessive regulations were adopted.

As a practical matter, it is important that Policy 5 has the backing of federal regulators. This backing has legal force in the terms of participation for Government of Canada auctions, which require adherence to the code of conduct in Policy 5 for Government Securities Distributors. The Bank of Canada and the Government may impose sanctions for violations, as stipulated in the document. It appears that similar backing from federal regulators or other arrangements would be necessary if additional market regulation requirements are introduced at the SRO level.

Although capital requirements are the driving force behind decisions to locate certain debt trading or inventory positions in federally-regulated institutions, other factors such as SRO sales compliance issues relating to suitability requirements and registration requirements may be factors too, to the extent that these requirements are applied only to registered securities dealers.

Summary

Practically speaking, the risk of dealers avoiding market regulation by moving trading activities intoaffiliated banks is low. To the extent that such activities are housed there, it appears that the banks would need to agree to be bound by any new IDA requirements, in a similar fashion to Policy 5.

APPENDIX 1

Survey Questions

Debt Market Regulation Survey

Category (circle one): Regulators / Issuers / Buy Side/ Sell Side / Bond Committee / Inter-Dealer Brokers / Retail

Organization: _____

Date: _____

Interviewee: _____

Position: _____

Department/Division/Function: _____

Interviewers: _____

Background Information:

1. Please give us an overview of your organization's participation in the debt markets in Canada

   Please outline the range and scale of your debt market activities.

2. Please explain how your department fits within your organization:

   What is your department responsible for/what is its function?

   What other departments/functions do you interface with?

   What external parties does your department interface with/who do you deal with?

3. Please explain your role and responsibilities within your organization.

Common Questions:

1. Explain your overall impression of the quality and efficiency of the debt markets in Canada in terms of pricing, liquidity, timeliness of transactions, conflicts of interest and the like, (by segment) such as:

Government	Retail
Corporate	Institutional

2. Explain your overall impression of the market integrity (i.e. fairness or ethics) of the debt markets in Canada.

3. In your view, should different segments of the debt market be regulated differently? Please explain why or why not. (Institutional vs. retail, corporate vs. government)

4. What incentives exist to trade debt securities in one part of your organization as compared to another?

5. If there is identified to be a need, do you think administrative arrangements or agreements could be made to ensure uniform regulation of the debt markets across all participants? By whom and covering what areas? Please explain.

Trading Activities

6. In your view, what works well about the Canadian debt markets? What doesn't?

7. Are there any issues or practices related to government and corporate bonds in the debt markets that concern you?

   Can you provide specific examples?

Have your encountered these things directly or have you witnessed them?

How often do these practices occur?

Prompts for Questions 7: [raise each in turn]

Trading practices (presence of deceptive or manipulative practices?)

Transparency – in terms of both price and volume (sufficient or lacking) [purpose – relates to CanPX, are there any issues in the market caused by or related to transparency?]

Frontrunning of client orders

Client confidentiality (failure to maintain it?)

Retail Trading Only

Allocation of fills among clients in the secondary market (equitable?)

Priority to client orders in the secondary market

Honouring quoted prices

Price mark-ups (wholesale? retail?)

Best execution obligation (acting as agent)

Compliance and Regulators Only

Quality of records of orders and trades (audit trail)

Quality of compliance policies and procedures (by regulators, firms)

Quality of compliance monitoring and review (by regulators, firms)

Supervision of trading desk

Appropriateness and effectiveness of current regulatory requirements

Regulation

8. Are you familiar with the IDA's current policies and regulatory activities relating to the debt market? Are you familiar with the roles of other regulatory bodies in the regulation of the debt market? Primary auction and secondary trading?

9. From a risk management standpoint, what would you say are the major/significant regulatory risks in the debt markets today?

10. How do you manage these risks? In your opinion, how prepared is the industry to manage these risk and why?

11. Generally, what is your impression of the IDA's role in regulating the bond markets? Explain how effective their regulatory requirements are?

12. Generally, what is your impression of the OSC's (or other Provincial Securities Commission as applicable) role in regulating the bond markets? Explain how effective their regulatory requirements are?

13. Generally, what is your impression of the Bank of Canada's role in regulating the bond markets? Explain how effective their regulatory requirements are?

14. Generally, what is your impression of OSFI's role in regulating the bond markets? Explain how effective their regulatory requirements are?

15. What is your opinion of the scope and the quality of regulatory oversight of the debt markets by each regulator mentioned above?

Prompts:

Too little / too much?

Focus of oversight?

Effective monitoring, surveillance and enforcement?

16. How familiar are you with IDA Policy #5?

(i.e. never heard of it, know of it, read it, know its contents well).

17. How has your organization implemented the guidelines specified in Policy #5? How do they monitor compliance with Policy #5?

18. How sufficient is Policy #5 for regulating the debt market trading? Why?

19. In your view, what improvements to Policy #5 are needed, if any? (*Note: refer back to the problems or issues that they raised previously, if any.)*

20. What additional steps, if any, do you think regulators should take to ensure the proper functioning of the market and to prevent against the issues and risks raised above (if any)?

21. Do you think market surveillance of debt market trading is needed or would be beneficial? Please explain why or why not.

If you think market surveillance is needed, what approach would be most effective?

(For example, on-line surveillance, real time, off-line review of exception reports, spot checks, regular trade desk reviews.)

22. In your view, what regulatory body is best suited to take a lead role as regulator for the debt markets? Why?

23. Is there anything else you feel we should know?

Specific Stakeholder Questions

Regulators Only:

1. Please explain your regulatory role. Where does your jurisdiction come from? What is your mandate?

2. What is your exposure to the debt markets and what work do you do in the debt markets?

3. To your knowledge, have the regulators developed or discussed potential solutions to ensure uniform regulatory standards apply in the debt markets?

4. In order to ensure uniform regulatory standards apply to all debt market participants, do you think it is important to co-ordinate the regulation of debt market participants? In what areas? Could/should the regulation of all debt market participants be subject to the oversight of one regulator?

5. In your opinion, who should be the regulator(s) on the debt side?

Compliance Only:

1. Are there specific types of issues or concerns in the debt markets that you are aware of or that you feel need addressing given your compliance background?

2. What are the major kinds of complaints your firm receives about the debt markets side of your business? Approximately how many complaints do you get annually in this area? From whom?

3. How does your organization supervise its bond trading desk?

Issuers Only:

1. Are investors in debt securities adequately protected by the existing regulation of the market?

2. Are there any practices in the market that affect the liquidity or trading of your bonds?

APPENDIX 2

Investment Dealers Association of Canada

Policy No. 5

Code of Conduct for
IDA Member Firms Trading
in Domestic Debt Markets

March 2002

The Investment Dealers Association is Canada's national self-regulatory organization for the securities industry. The Association regulates the business activities of securities firms dealing with the public, and the selling practices and proficiency requirements of registered Investment Advisors. The Association is also the trade association of the Canadian securities industry and represents the interests of IDA member firms to legislators, regulators, government officials, the Bank of Canada and the general public. In carrying out its regulatory and trade association mandate, the Association plays a constructive role in promoting the liquidity and integrity of Canada's capital markets.

IDA Policy No. 5, the code of conduct for dealing in domestic debt markets, will make an important contribution to the federal Department of Finance and Bank of Canada initiatives to maintain the integrity of Canadian fixed income markets. The development of Policy No. 5 is an example of how the IDA can integrate its self-regulatory responsibilities and industry expertise to produce effective regulation for the benefit of issuers and investors in capital markets.

2 January 2001

PREFACE

In the spring of 1998 the Bank of Canada and Department of Finance introduced several initiatives, in consultation with the Investment Dealers Association and other market participants, to maintain a well-functioning market in Government of Canada securities. The initiatives included new rules for bidding at Government of Canada securities auctions and an increase in the Bank of Canada's monitoring activities in the Government of Canada debt market '*Proposed Revisions to the Rules Pertaining to Auctions of Government of Canada Securities and the Bank of Canada's Surveillance of the Auction Process – Discussion Paper 2'* and a revised Terms of Participation agreement *'Proposed Terms of Participation in Auctions for Customers'* for Primary Dealers and Government Securities Distributors.

The federal government has defined its jurisdiction over domestic debt markets as the new issue or primary markets for Government of Canada securities. Since the liquidity and integrity of secondary markets are also at risk from declining issue size, the Investment Dealers Association worked closely with the Bank of Canada and Department of Finance to develop a formal code of conduct for dealing practices in domestic debt markets. This code of business conduct, embodied in IDA Policy No. 5, would apply in principle to all participants in domestic markets and is designed to be an integral part of the federal initiative to safeguard the liquidity and integrity of domestic markets.

The IDA Board of Directors voted on 30 June 1998 to implement IDA Policy No. 5 and on September 25 the Ontario Securities Commission formally approved the Policy for use at IDA member firms, pursuant to the procedures required for recognized self-regulatory organizations in Ontario.

The Policy, together with the revised auction rules and Terms of Participation Agreement for Primary Dealers and Government Securities Distributors, will ensure proper conduct of market participants at auction and in secondary markets, and will result in the close coordination between federal authorities, IDA member firms and Association staff in the exchange of detailed market information and the enforcement of proper market conduct.

The policy was prepared by a sub-committee of the IDA Capital Markets Committee and Bank of Canada Jobber Committee chaired by Jerry Brown, Managing Director, Salomon Smith Barney Canada Inc. In developing IDA Policy No. 5, the sub-committee referred to similar regulatory documents in other jurisdictions, such as *The London Code of Conduct* (Bank of England), *Principles and Practices for Wholesale Financial Transactions* (Federal Reserve Bank of New York and Public Securities Association), and compliance policies and procedures manuals prepared by individual IDA member firms.

In December 1999 the Investment Dealers Association was requested to clarify the practices and procedures for the disclosure of confidential information in connection with public offerings of government debt securities. After thorough review of the responsibilities of member firms participating as syndicate members in public debt offerings, the IDA Capital Markets Committee agreed that formal clarification of the confidentiality requirements of a member firm was warranted and, as a result, the Committee developed a specific confidentiality rule related to material information provided to syndicate members in public debt offerings.

IDA Policy No. 5 was amended by including a new provision in the Policy, Section 2.4(i), stipulating that information provided in confidence by an issuer to a member firm must be kept confidential. This amendment to IDA Policy No. 5 was passed by the IDA Board of Directors and subsequently approved by the Ontario Securities Commission in December 2000 in accordance with the requirements for a recognized self-regulatory organization.

In March 2001 the Investment Dealers Association reviewed the surveillance requirements of the Policy, particularly the examples of situations that could signal manipulative activities and the process for alerting regulators to the existence of non-functioning markets. Section 5.2 was rewritten and approved by the IDA Board of Directors in October 2001 and approved by the Ontario Securities Commission in March 2002.

Interested parties with questions or comments on any aspect of IDA Policy No. 5 should contact Jon Cockerline, Director, Capital Markets, Investment Dealers Association of Canada (416-943-5787).

INVESTMENT DEALERS ASSOCIATION OF CANADA

POLICY NO. 5

TRADING IN DOMESTIC DEBT MARKETS

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1. GENERAL

1.1 Purpose

This Policy No. 5 of the Investment Dealers Association of Canada is intended to describe the standards for trading in wholesale domestic Canadian debt markets expected of Members of the Association, their affiliates and the customers and counterparties with whom such Members deal. The Policy has been developed in consultation with the Bank of Canada and Department of Finance (Canada). The purpose of the Policy is to promote public confidence in the integrity of Canadian debt securities markets and to encourage liquidity, efficiency and the maintenance of active trading and lending in such debt markets.

1.2 Application

This Policy applies to Members of the Association and all related companies of Members. Affiliates of Members (other than related companies as defined in the Rules), customers of Members and counterparties with whom Members deal are not legally subject to the terms of the Policy; however, aspects of the Policy anticipate the co-operation of affiliates and customers, i.e. in reporting and certain disclosure, and Members are expected to conduct their business in a way that will encourage compliance by affiliates, customers and counterparties with the Policy to the extent applicable. For the purposes of the Policy, the term "affiliates" refers to organizations who can reasonably be viewed as having a common business interest with a Member in respect of trading in the Domestic Debt Market. In addition, the Policy, or some or all of the principles and practices reflected in the Policy, may be subscribed to or recognized by non-Members, other associations and regulatory or governmental bodies.

The terms of the Policy are binding on Members and all related companies of Members and failure to comply with the Policy may subject a Member or related company to sanctions pursuant to the enforcement and disciplinary By-laws of the Association. These sanctions are in addition to any recourse or actions taken by other authorities including the Bank of Canada, the Department of Finance (Canada) and provincial securities commissions having jurisdiction.

Members generally are responsible for the conduct of their partners, directors, officers, registrants and other employees and compliance by such persons with the Rules of the Association pursuant to By-law 29.1. In addition, partners, directors, officers, registrants and other employees of Members and their related companies are expected to comply with the Rules of the Association and other regulatory requirements, and this Policy is to be construed as being applicable to related companies and such persons whenever reference is made to a Member.

1.3 Association and other Regulations, Laws, etc.

The Policy is intended to supplement, and not to replace or modify, applicable statutes, governmental regulations, exchange or self-regulatory organization rules and codes of conduct, including the other Rules of the Association. Notwithstanding the foregoing, in the case of any inconsistency between the terms of this Policy and any other Rules of the Association, the terms of this Policy will prevail.

The specific requirements of the Policy may also be referred to and relied upon by the Association, its staff, Board of Directors, District Councils and their committees in determining compliance with other Rules of the Association.

1.4 Definitions

The following terms used in this Policy shall have the meanings indicated:

"Applicable Laws" means the common law of any jurisdiction in which Members and their affiliates trade in the Domestic Debt Market, any statute or regulation thereunder, or any rule, policy, regulation, directive, order or other requirement of any regulatory authority, exchange or self-regulatory organization applicable to trading in, or having jurisdiction over, the Domestic Debt Market and/or Members or their affiliates, customers and counterparties.

"Domestic Debt Market" means an over-the-counter, wholesale debt market in which Members participate as dealers on their own account as principal, as agent for customers, as primary distributors or jobbers as approved by the Bank of Canada or in any other capacity and in respect of any debt, fixed income or derivative securities issued by any government in Canada or any Canadian institution, corporation or other entity and includes, without limitation, repo, security lending and other speciality or related debt markets.

"Rules" means the Constitution, By-laws, Regulations, Rulings, Policies and Forms of the Investment Dealers Association of Canada, from time to time in effect.

2. FIRM STANDARDS AND PROCEDURES

2.1 Policies and Procedures

Members should have written policies and procedures relating to trading in the Domestic Debt Market and the matters identified in this Policy. Such policies and procedures should be approved by the board of directors of the Member or an appropriate level of senior management and be available for review by the Association. The policies and procedures must be established and implemented by senior management including periodic review to ensure that they are appropriate to the size, nature and complexity of the Member's business and as such business and market circumstances change.

2.2 Responsibility

Members shall ensure that all personnel engaged in Members' trading activities in the Domestic Debt Market are properly qualified and trained, are aware of all Applicable Laws, this Policy and internal policies and procedures relating to Domestic Debt Market Trading and are supervised by appropriate levels of management.

2.3 Controls and Compliance

Members shall maintain and enforce internal control and compliance procedures as part of the policies and procedures adopted pursuant to paragraph 2.1 to ensure that trading in Domestic Debt Markets by the Member is in accordance with Applicable Laws and this Policy.

2.4 Confidentiality

(i) Offerings in Public Markets

In offerings of debt securities in domestic public markets, Members shall ensure material information provided by the issuer, which is provided to them in confidence, is kept on a confidential basis. Except with the express permission of the issuer concerned or as required by Applicable Law, the Rules or this Policy (including requests for information or reporting by the Association or by the Bank of Canada), Members and their employees in possession of material confidential information related to the course of action of a forthcoming public offering shall not disclose or discuss or act upon, or request that others disclose or discuss or act upon, this material information with any customer or counterparty.

(ii) Dealings in Secondary Markets

Members shall ensure that dealings in the Domestic Debt Market with customers and counterparties is on a confidential basis. Except with the express permission of the party concerned or as required by Applicable Law, the Rules or this Policy (including requests for information or reporting by the Association or by the Bank of Canada), Members shall not disclose or discuss, or request that others disclose or discuss, the participation of any customer or counterparty in the Domestic Debt Market or the terms of any trading or anticipated trading by such customer or counterparty. In addition, Members should ensure that their own trading activities are kept confidential including information with respect to customers and trading and planning strategies. The policies and procedures adopted to ensure confidentiality should restrict access to information to the personnel that require it, confine trading to restricted office areas and designated personnel and encourage the use of secure communications and technology (e.g. careful use of cell or speaker phones, secure systems access and close supervision).

2.5 Resources and Systems

Members must maintain adequate resources and operational systems and safeguards to ensure that their trading activities in the Domestic Debt Market can be supported. This requirement contemplates not only that the Member have sufficient capital, liquidity support and personnel, but also that it have comprehensive operational systems appropriate for Domestic Debt Market trading such as all aspects of risk management (market, credit, legal, etc.), transaction valuation, technology and financial reporting.

3. DEALINGS WITH CUSTOMERS AND COUNTERPARTIES

3.1 Know-Your-Client and Suitability

Regulation 1300.1 of the Association requires that Members use due diligence to learn the facts relative to every customer to ensure that the acceptance of any order is within the bounds of good business practice and to ensure that recommendations are appropriate for customers and their investment objectives. This Regulation is supplemented by the Policies of the Association and applies to Members dealing with all customers who trade in the Domestic Debt Market.

3.2 Conflicts of Interest

Good business conduct as referred to in section 4 of this Policy as well as provisions of the other Rules of the Association and Applicable Law require that Members avoid conflicts of interest in their dealings with customers, counterparties and the public. Such conflicts can arise in many different circumstances but one of the underlying principles is that a fair, efficient and liquid Domestic Debt Market relies in part on open and unbiased dealings by Members, and fulfilment by Members of their duties to customers before their own interests or those of their personnel. The policies and procedures of Members should clearly describe the standards of conduct for Members and personnel. Examples of some of the matters to be included in the policies and procedures are restrictions and controls for trading in the accounts of Members' personnel, prohibition of the use of inside information and practices such as front running, fair client priority and allocation standards and prompt and accurate disclosure to customers and counterparties where any apparent but unavoidable conflict of interest arises.

3.3 Application of Policy to Customers and Counterparties

While this Policy applies directly to Members and their related companies and their respective personnel, the standards and principles of good practices and fairness reflected in the Policy are those which can be expected of all participants in the Domestic Debt Market. Accordingly, it is intended that dealings between Members, their related companies, affiliates, customers and other counterparties shall be on terms which are consistent with this Policy and such dealings shall be deemed to include any terms necessary for a party to implement or comply with this Policy. Members should not condone or knowingly facilitate conduct by their affiliates, customers or counterparties which deviates from this Policy and its purpose of promoting public confidence in the integrity of the Domestic Debt Market. Subject to Applicable Law, reporting to the Association or appropriate authorities of the failure, or suspected failure, of Members, their affiliates, customers and counterparties to comply with this Policy is expected under the surveillance requirements of this Policy.

4. MARKET CONDUCT

4.1 Duty to Deal Fairly

By-law 29.1(i) of the Association requires that Members shall observe high standards of ethics and conduct in the transaction of their business. This requirement imposes on Members significant responsibilities to the extent that they deal in the Domestic Debt Market which is over-the-counter and not generally subject to the rules and discipline of organized or exchange markets. Participation by Members in the Domestic Debt Market requires that Members act fairly, honestly and in good faith when marketing, entering into, executing and administering trades in the Domestic Debt Market.

4.2 Public Interest

By-law 29.1(ii) of the Association requires that Members shall not engage in any business conduct or practice which is unbecoming or detrimental to the public interest. Liquid and efficient Domestic Debt Markets are of critical importance to Canada and Members are expected to conduct themselves in a manner that is consistent with that public interest.

4.3 Manipulative Practices

Members should not engage in any trading practices in the Domestic Debt Market that constitute fraudulent, deceptive or manipulative acts or practices as determined in accordance with any Applicable Laws or under the Rules of the Association or this Policy.

4.4 Bribes, Illegal Payments, etc.

By-law 29.6 of the Association prohibits Members or their personnel or shareholders from giving, directly or indirectly, any benefit or consideration to a customer, or its personnel or associates, in relation to the business of the customer, without the prior written consent of the customer. In addition, Applicable Laws may make it an offence to offer bribes or other kinds of payments or consideration in respect of the conduct of certain activities. The policies and procedures of the Member should describe the standards of conduct required for Members and their personnel.

4.5 Criminal and Regulatory Offences

Members shall ensure that their trading in the Domestic Debt Market does not contravene any Applicable Law including, without limitation, money laundering, criminal or provincial securities legislation or the directions or requirements of the Bank of Canada or Department of Finance (Canada) whether or not such directives or requirements are binding or have the force of law.

4.6 Misrepresentations and False Remarks

A Member should not spread, or acquiesce or assist in the spreading, of any rumours or information that the Member knows or believes, or reasonably ought to know or believe, to be false or misleading. In addition, a Member should not disseminate any information that falsely states or implies governmental approval of any institution or trading.

4.7 Market Conventions and Clear Communication

Members should use clear and unambiguous language in their trading activities particularly in negotiating trades on the Domestic Debt Market. Each kind of trading in the Domestic Debt market has its own unique terminology, definitions and calculations and a Member should, prior to engaging in any trading, familiarize itself with that type of trading's terminology and conventions. Members should ensure that customers understand the unique features of the relevant markets and products. In addition, no Member should abuse deliberately market procedures or conventions to obtain an unfair advantage over, or to unfairly prejudice, its counterparties or customers.

5. ENFORCEMENT

5.1 Association Procedures to Apply

Compliance by Members with the terms of this Policy will be enforced in accordance with the general compliance, investigative and disciplinary Rules of the Association.

5.2 Surveillance

Careful surveillance of the Domestic Debt Market and the trading activities of market participants is required to ensure that the objectives laid out in this Policy are achieved. Due to the nature of the Domestic Debt Market, Members and their affiliates have the responsibility to self-monitor their conduct. In this regard, Members should report promptly to the Association or any other authority having jurisdiction, including the Bank of Canada, breaches of the Policy or suspicious or irregular market conduct. Alleged breaches of the Policy should be reported to senior officers of the Association or the Bank of Canada by the executive responsible for the debt operations of the Member. In addition, the Association's own investigative powers and resources will be applied to review market activity in order to identify irregular conduct.

As part of the surveillance, the Association may require the Member and their affiliates to file the IDA Net Position Report. Net Position Reports may be requested by either the Bank of Canada (for Government of Canada securities), or by the Association. The request for a report, and associated requests for information required to clarify individual Member's reports, would be undertaken as a preliminary step to identify large inventory holdings of securities that could have allowed a Member to have undue influence or control over the Government of Canada, provincial or corporate debt markets.

The circumstances that could trigger a request for Members to file a Net Position Report include all activities deemed to be detrimental to the liquidity and integrity of the Domestic Debt Market. Market integrity concerns may be manifested in any one of, but not limited to, the following ways: an unusual concentration of holdings in certain outstanding securities, whether directly by a Member or in concert with others (holdings which exceed 35 per cent of the outstanding supply may be one example of unusual concentration); an unusual differential in the traded yield between issues of securities of similar maturity; an unusual gap between the repo rate and the overnight rate for the same type of securities for a sustained period of time (a gap greater than 200 b.p. may be one example of an unusually large differential); or unusual trading volumes in particular securities. The foregoing are only examples of circumstances where reporting may be required or investigations instituted; they are not intended to define thresholds of acceptable conduct or practices. Reporting may be required or an investigation instituted if, in any particular situation, the principles and standards of this Policy have, in the opinion of the IDA or the Bank of Canada been contravened.

The results of a Net Position Report, and associated information requested to clarify individual Member's reports, will be used to determine whether any follow up investigation is required. The Association and the Bank of Canada will base this decision on whether large holdings of securities reported in the Net Position Report had been used to influence market direction for the Member's gain in a manner detrimental to the liquidity and integrity of the Domestic Debt Markets. The Association in collaboration with the Bank of Canada will promptly inform Members of the results of the Net Position Report survey and whether an investigation will proceed.

5.3 Sanctions

The disciplinary Rules of the Association provide for a wide range of sanctions against Members and their personnel who are in breach of the Rules including this Policy. Such sanctions include fines of up to $1,000,000 per offence or (in the case of a Member) triple the amount of the benefit from the breach, reprimands, suspension or termination of approval or expulsion. Notice of such sanctions shall be given to the public or other government and regulatory authorities in accordance with the

Rules. In addition, other government or regulatory authorities such as the Bank of Canada, Department of Finance (Canada) or provincial securities commissions may, in their discretion, impose formal or informal sanctions including, in the case of Government of Canada securities, the suspension or removal by the Bank of Canada of eligible bidder status for auctions of such securities.

5.4 Other Public Authorities

The Domestic Debt Markets and trading by Members and their affiliates, customers and counterparties in such markets may be subject to, or affected by, other government or regulatory authorities in Canada and elsewhere including both the Bank of Canada and the Department of Finance (Canada). The Association expects to co-operate with such authorities in connection with the monitoring and regulation of the Domestic Debt Markets and the conduct of Members in them. Likewise, it is expected that Members will co-operate with the Association and other such authorities in maintaining the integrity of the Domestic Debt Markets and the standards required of Members in connection with this Policy, the Rules of the Association and Applicable Law. Such co-operation will include, but not be limited to, compliance with the reporting and position limits of the Bank of Canada and any directives of the Bank or any requirements for voluntary action.

To the extent that this Policy refers to any government or regulatory authority other than the Association, the effect or interpretation of such reference shall be restricted to matters within the jurisdiction of such authority. In particular, to the extent that this Policy refers to the Bank of Canada or the Department of Finance (Canada), the Policy relates to Government of Canada securities only. Nothing in this Policy shall derogate from the authority of the Association under its rules or Applicable Law.

Investment Dealers Association
Net Position Report
for Government of Canada Securities

In compliance with Section 5.2 of Policy No.5 Code of Conduct for IDA Member Firms Trading in Domestic Debt Markets, please submit your net positions in the following security:

Name of IDA Member: _____

Security (ISIN/CUSIP): _____

Maturity Date: _____

Position as of the close of (date): _____

Government of Canada Security (par value, $ millions to one decimal point)	Net Position
Trading Position:	
a. Cash holdings	
b. When-issued positions	
c. Forward contracts	
d. Futures contracts that require delivery of the specific issue	
e. Holdings of the residual component of a stripped security	
f. Options contracts that require delivery of the specific issue weighted by the probability of exercise	
g. Any position in the security not covered by the above types of contracts, including “guaranteed” trades	
h. Net trading position (a+b+c+d+e+f+g)	
Financing Position	
i. Securities Received (loaned) through repos	
j. Securities borrowed (loaned)	
k. Pledged collateral for financial derivative and other securities transactions	
l. Net financing position (i+j+k)	
Fails Position	
m. Fails to receive less fails to deliver	
Net Overall Position (h+l)	

Prepared by:	Tel:

Please return completed survey by fax to: (416) 943-6753
Attention: Louis Piergeti, Vice President, Financial Compliance

Appendix A

IDA/CSA Market Survey on Regulation of Fixed Income Markets

Recommendations and Analysis

July 16, 2002

Deloitte & Touche

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I. BACKGROUND

Objective of Survey

The objective of the survey of Canadian debt market participants and regulators is to identify whether any problems or issues exist in the trading practices of participants in the unlisted debt markets in Canada.

This appendix represents the major recommendations that have arisen based on the results of the survey, combined with our expertise. It should be read in conjunction with the final report titled IDA/CSA Market Survey on Regulation of Fixed Income Markets dated July 16, 2002, which provides a detailed analysis of the survey objectives, process and findings.

Process

To meet the requirements of this engagement, Deloitte & Touche LLP ("D&T") began by working with the Project Steering Committee ("PSC") appointed by the Investment Dealers' Association of Canada ("IDA") and Canadian Securities Administrators ("CSA") to confirm project objectives, timelines and deliverables. We then worked with the PSC to develop a survey to be used in the process of interviewing market participants and regulators. We sought the input of the Capital Markets Committee of the IDA ("CMC") and the Bond Market Transparency Committee ("BMTC") in the development of the survey.

We sought answers to the survey from 29 market participants and regulators through 33 surveys, interviews and focus groups. The debt market participants interviewed included representatives from securities dealers, institutional investors, issuers, inter-dealer brokers, retail market participants, industry committees, Alternative Trading Systems ("ATSs") and regulators. For the majority of participants, we were able to conduct in person interviews. Interviewees were assured that individual responses would be kept confidential and that comments would not be attributable so as to encourage openness in the survey process.

II. RECOMMENDATIONS AND ANALYSIS

The following recommendations are based only on the survey interview results, complemented by our own expertise. We have not attempted to validate any of the opinions expressed by interviewees. Prior to making recommendations on a broad and complex subject such as regulation of fixed income markets, we would normally conduct significantly more research in order to substantiate our advice, including in-depth interviews with regulatory staff, review of regulatory programs and records, review of available reports and papers on the market, and benchmarking against programs in other markets.

IDA Policy 5

1. The IDA's rules and policies, as set out in Policy 5, should continue to formally apply only to IDA member firms. Steps should be taken to ensure that the institutional investors are familiar with the principles in Policy 5 and agree to observe them. The principles of Policy 5 should be incorporated into institutions' internal codes of ethics and compliance policies, to the extent the principles apply to the trading activities of non-dealers.

Supporting Analysis

Given the complexities of IDA jurisdiction, the conflicts of interest issues that would arise if its jurisdiction were to be extended to non-member market participants, and the fact there is no self-regulatory body for institutions, the consensus was that Policy 5 should not be formally applied to institutions by placing them under IDA jurisdiction. We agree that this is the most practical approach, and recommend that Policy 5 continue to formally apply to IDA member firms. The level of concern over market integrity and the conduct of institutional investors does not merit pursuing the kind of wholesale changes in the regulatory system that would be required in order to formally subject institutions to the rules and policies of the IDA or of Policy 5 alone.

Policy 5 currently states:

"Affiliates of member (other than related companies as defined in the Rules), customers of Members and counterparties with whom Members deal are not subject to the terms of the Policy; however, aspects of the Policy anticipate the co-operation of affiliates and customers; i.e. in reporting and certain disclosure, and Members are expected to conduct their business in a way that will encourage compliance by affiliates, customers and counterparties with the Policy to the extent applicable. … In addition, the Policy, or some or all of the principles and practices reflected in the Policy, may be subscribed to or recognized by non-Members, other associations and regulatory or governmental bodies."

The Policy goes on to state that any IDA sanctions on Members "are in addition to any recourse or actions taken by other authorities including the Bank of Canada, the Department of Finance (Canada) and provincial securities commissions having jurisdiction". The references to affiliates appear to be primarily aimed at banks that own securities dealers.
Therefore, the Policy clearly contemplates wide-ranging application of its principles beyond IDA member firms. However, these expressions of good intent are worded vaguely, both as to the applicability of the Policy to non-members, and as to the scope of the provisions that might apply. In our meetings with non-members, respondents were only vaguely familiar with the Policy, if at all, and certainly did not view the Policy as applicable to their activities as market participants and customers of dealers. It therefore appears that part of the original intent of the Policy has not been achieved.

Consequently, in order to 1) clarify the degree to which the Policy applies to non-member market participants; 2) increase institutions' knowledge and familiarity with the Policy; and 3) increase compliance with the standards of conduct promoted in the Policy, we make several recommendations:

1. The CSA, IDA, Bank of Canada and Department of Finance, working with institutional and retail investors, should develop a process to identify the specific provisions of Policy 5 that are considered applicable to the trading activities of institutional investors and that should be observed. Currently this area is quite unclear because the Policy is aimed at securities dealers, while it suggests that "aspects of the Policy anticipate the co-operation of affiliates and customers".

2. The stakeholders should also develop a process to educate institutional investors on the rules and standards of conduct set out in Policy 5 that apply to their activities. These efforts should cover executives responsible for fixed income programs, fixed income traders and compliance staff of institutions. The process should include continuing education to ensure this knowledge is maintained and imparted to new staff.

Institutional investors should agree to incorporate the applicable rules and standards of conduct into their internal compliance policies and procedures. This step would go a long way to ensuring a consistent approach to standards of behaviour amongst buy side participants, as well as ensuring that standards conform to Policy 5 and the standards imposed on dealers and other participants. Further, if such standards are incorporated into internal policies, it will improve knowledge of the rules and policies, as well as compliance with them. Compliance can also be strengthened if institutions utilize internal audit or risk management controls to monitor compliance with certain standards.

The benefits of this approach are:

1. Jurisdictional issues and problems do not need to be resolved because the current approach to jurisdiction will be maintained. Attempts to redraw jurisdictional lines, whether between governments or at the self-regulatory level, would inevitably be bogged down in political and legal conflicts that would significantly delay, if not prevent, implementation of beneficial changes. The survey results do not demonstrate a need to redraw jurisdictional boundaries at this stage.

2. Reliance on informal cooperation and information sharing among regulators has been effective so far, and we believe these informal processes can be maintained and expanded.

3. The development of electronic trading systems and the entry of ATSs is much better served by avoiding introduction of significant new uncertainty about regulatory requirements for fixed income markets. Concerns already exist about the complexity of the requirements under the ATS rules, and both the business and the regulators are still digesting and in the process of determining the practical application of these requirements.

2. A process should be established for ongoing assessment of the need for changes to Policy 5. All stakeholders should be involved in the assessment, including institutional investors.

Supporting Analysis

Given the likely need to reassess the provisions of Policy 5 periodically, we recommend that all of the stakeholders agree on a process to address market integrity issues and amendments to Policy 5. Since Policy 5 is the basic regulatory instrument governing bond market trading, it affects all market participants, and therefore all participants should have input to the process. This includes institutional investors, who are also expected to observe the standards of conduct set out in the Policy, even though it does not formally apply to them.

Reporting and Surveillance

3. There is no demonstrated need for real-time market surveillance. The usefulness of exception reports for market surveillance purposes based on existing trade reporting requirements should be examined, and based on the results, could be expanded as trade reporting expands with the development of electronic trading through ATSs and similar trading platforms.

Supporting Analysis

The need for some form of market surveillance program was raised by the sponsors of the study and the question was specifically asked in the survey. The overwhelming majority of participants felt that surveillance would not be helpful, especially the kind of real-time surveillance employed in equity markets. The reason for this is people do not see problems in trading practices that could be identified through market surveillance. The consensus is that the cost of surveillance, especially real-time monitoring, would be greatly disproportionate to its benefits.

Some participants saw a useful role for follow-up exception reports highlighting pricing and other anomalies in trading patterns. The databases created and populated as a result of transparency and electronic trading initiatives could be employed for regulatory purposes going forward, as the need arises. One place to start would be to develop exception reports to identify, in an after-the-fact batch reporting process, significant price or other market anomalies in liquid issues, as a means of identifying significant trends or changes in market activity. The usefulness of follow-up surveillance reports and analysis could be tested in this manner.

It was also suggested that the IDA could use the summary trading information currently collected to flag significant trends or anomalies. A further suggestion was that the IDA should start collecting data on derivatives market activity.

Generation of an adequate data feed of quotes, orders and/or trades is an obvious pre-requisite to surveillance activities, especially for real-time surveillance. Participants were strongly of the opinion that the costs of developing and maintaining this type of audit trail, and the associated trade-reporting regime, would be prohibitive, and the benefits would be very small. Consequently, we recommend that a trade reporting system and audit trail requirement not be imposed for market surveillance purposes. Improvements in trade reporting and databases of trading activity should result from developments in transparency and electronic trading systems, as well as installation of internal order management systems by the dealers.

Retail Investors

4. The IDA should take three initiatives to address the issue of retail prices and mark-ups:

1) The IDA should establish a process to address the need for a rule or policy on pricing and mark-ups on debt securities sold to retail clients.

2) The IDA should amend the standards for supervision of retail accounts to specifically address sales of debt securities and mark-ups.

3) The IDA should establish a policy requiring all member firms to have internal policies and procedures in place to govern mark-ups on debt securities, as well as procedures for the supervision of such activity.

Many survey respondents, including people involved in the wholesale market, expressed concerns about the efficiency and transparency of the retail market and the impact on fair treatment of retail investors, as noted in our findings. The concerns focus on the prices of fixed income securities sold to retail investors, including mark-ups, relative to prices in the wholesale market. Many consider such mark-ups to be excessive, but virtually all respondents were of the view that the lack of transparency in the market at the retail level makes it impossible for retail investors, and often retail brokers, to assess the reasonableness of a price. The lack of a visible market or benchmark price, such as an exchange price, makes it very difficult for investors to understand the bond market, let alone safeguard their own interests.

In order to provide better service to retail investors, improve the visibility of prices, and provide stronger incentives for self-policing of mark-ups or commissions, we recommend that the regulators take 3 steps.

4.1 The IDA should establish a process to address the need for a rule or policy on pricing and mark-ups on debt securities sold to retail clients.

Supporting Analysis

In order to ensure that mark-ups on fixed income securities sold to retail clients from a firm's inventory as principal are reasonable, it may be necessary to establish a policy in this area to limit mark-ups to a predefined amount and /or ensure fairness. Prior to bringing in such a rule, in-depth research and analysis on the need for such a rule must be conducted, as well as on the benefits, costs, substantive wording of any rule, and finally the implementation issues. The IDA should establish a process involving member firms and other stakeholders to examine the need for such a rule in the industry. The process should examine the current policies on retail pricing and mark-ups in place at member firms, as well as the internal compliance checks, controls or supervision of the same.

4.2 The IDA should amend the standards for supervision of retail accounts to specifically address sales of debt securities and mark-ups.

Supporting Analysis

The industry has established minimum standards for supervision of retail accounts through the IDA in order to ensure a uniform basic level of monitoring of member firms' retail brokerage activities. We recommend that the standards be re-examined in order to determine whether it would be helpful to add standards to specifically address sales of debt securities by retail brokers, including the mark-ups or commissions charged to clients.

4.3 The IDA should establish a policy requiring all member firms to have internal policies and procedures in place to govern mark-ups on debt securities, as well as procedures for the supervision of such activity.

Supporting Analysis

Even if the IDA does not adopt a rule or policy on mark-ups, we believe there is a need to ensure that all member firms that sell fixed income securities have established internal policies and procedures to govern mark-ups or commissions charged to retail clients by the firm's brokers. A firm's policies should establish parameters for such mark-ups for different categories of fixed income securities to ensure that they are reasonable, in the context of the price in the wholesale market, the size of the trade, the liquidity of the issue and the term to maturity. A firm's procedures should ensure that prices and mark-ups charged to clients are reviewed for compliance with the firm's policies, and that any exceptions or problems are addressed.

5. The CSA and IDA should establish a process to address the need to improve transparency of debt market prices at the retail level.

Supporting Analysis

As noted in our findings, a widespread consensus exists that transparency of the fixed income markets is poor for retail investors and needs to be improved. Significant improvements in the visibility of prices and trading at the wholesale level have not filtered down to the retail level. Certain dealers now offer visible prices on many fixed income securities as part of their on-line brokerage services, and for clients using such services this is a significant development. However, the prices posted for debt securities are the firm's internal prices, as opposed to an independent market price. The only exception to this is Collective Bid's BondMatch™ service, which collects prices from several participating dealers.

A data feed of benchmark prices, ideally prices established in the wholesale market, is needed. However, it is not clear what data feed is appropriate for retail investors – some feel that retail investors will be confused by the difference between wholesale and retail prices – and how such prices can be disseminated efficiently to retail investors. We recommend that the CSA and IDA establish a process to address the need for improved transparency at the retail level, with a view to determining what price feeds should be made available and how to provide investors with access to the information.

Fixed Income Derivatives

6. We believe it is premature to address the fixed income derivatives market until decisions have been made on the approach to regulation of the cash markets.

Supporting Analysis

Because very few respondents commented on the OTC derivatives market, little information exists on which to base recommendations. The market is generally viewed as a professional market for sophisticated players, where "buyer beware" should be the rule. The OTC market is also highly concentrated. Exchange markets (the Montreal Exchange in Canada) attract a much wider range of participants, but are fully regulated.

The issue is also complicated by the fact that OTC fixed income derivatives are only a component of a diverse market for OTC financial instruments, so the question of how to regulate them is much bigger than fixed income products. Equity OTC derivatives are unregulated notwithstanding the fact equity markets are heavily regulated. Stock market regulators have minimal information about OTC derivatives in spite of the fact they impact prices in the cash market. The OSC has previously attempted to regulate the OTC derivatives market but the proposal was withdrawn as a result of objections based on the complexity of the issues. At the same time, the OTC derivatives market in the US has been substantially deregulated.

Role of the IDA

7. The IDA should take steps to clarify its role in the fixed income markets, to increase its presence with market participants, and to make targeted improvements to its regulatory functions to address debt market issues.

Our specific recommendations regarding the IDA's role and its SRO activities are set out below.

7.1 Compliance with Policy 5 should be administered by the IDA's Member Regulation Department.

Supporting Analysis

Many respondents, especially on the buy side, commented on the conflict of interest that arises in the IDA's governance structure: the IDA represents its member firms and is an industry lobby group, as well as a SRO. In the past most of the IDA's activities relating to debt markets have been the responsibility of its Capital Markets group, particularly policy development and the collection and distribution of trading data. It is important to note that the Capital Markets group is part of the IDA Trade Association and not part of the regulatory side of the IDA. The role of the Member Regulation Department has been ambiguous, given the bond market's largely self-policing nature, and the fact the IDA has not focused on this market in its regulatory activities. Regulatory and policy issues have usually been addressed by the IDA's Capital Markets Committee.

However, Policy 5 is a regulatory instrument and as such, we recommend that it be administered by the Member Regulation Department. Specifically, the Department should be responsible for administering compliance examinations as they relate to the Policy, responding to complaints, and investigations of potential violations. We note that other areas of the IDA, including Capital Markets, should continue to be involved in policy development and proposed changes to the Policy. The IDA and its member committees will continue to play an important role in the development and promotion of efficient and competitive fixed income markets, apart from their self-regulatory role.

7.2 The IDA should expand their compliance reviews to more fully encompass the debt market activities of members, including the development of a trade desk module for fixed income trading. The IDA's reviews should address specific issues in retail sales of debt securities.

Supporting Analysis

Member respondents commented that the IDA's organizational presence in the fixed income markets is limited, particularly from a regulatory standpoint. From the members' perspective, sales compliance reviews do not address fixed income issues, except to ensure Policy 5 is reflected in a firm's policies. A trade desk compliance program focused on bond desk activity has not been developed. (Trade desk reviews are primarily carried out by Market Regulation Services, but its mandate is limited to equity markets.) Members commented that the Bank of Canada's presence and level of communication with market participants is much higher.

In response to these concerns, we are recommending that the IDA expand its regulatory program in the fixed income arena to ensure that the basic principles of its self-regulatory mandate encompass its members' activities in this field. Specifically, we believe the IDA should develop compliance review modules focused on fixed income sales and trading. Compliance reviews should examine retail sales compliance, and a trade desk module should be in place to test trading compliance at firms with bond trading operations. As with all compliance examinations, the extent of the review process at a particular firm will depend on the scope of the firm's fixed income sales and trading activities, as well as its risk profile in these areas. One component to be considered in the risk profile will be the presence of and functions performed by the middle office in terms of in-house trading compliance and supervision.

These enhancements to the IDA's compliance program would improve the IDA's presence and visibility as the SRO responsible for regulating members' bond market activities. It would increase interaction between IDA staff and bond market participants, which over time would increase IDA staff's level of knowledge and expertise on fixed income markets and issues. In addition, it would help to improve member firms' knowledge and understanding of regulatory requirements. The overall result should be a higher level of compliance with IDA rules and policies, and likely a more active role for members' compliance departments in the fixed income markets.

7.3 The IDA should establish a clearer complaint process relating to debt market activity for institutional investors and members. The process should be clearly communicated to all market participants.

Supporting Analysis

It was evident from our interviews that participants do not feel there is a clear process to file complaints with the IDA, particularly if the complaint is about regulatory compliance, as opposed to a policy issue. Institutional investors were especially unclear about whether it is appropriate for them to file complaints with the IDA, or if so, what the process is. Member firms see the Capital Markets Committee (although part of the Trade Association side of the IDA) as a forum for raising any regulatory or market policy issues, and the Industry Relations and Representation Department (formerly the Capital Markets Department) at the IDA as the staff group responsible for liaison with bond market participants.

Market participants do not see the Member Regulation Department as having a role in addressing bond market issues or complaints.

We suggest it would be beneficial for the IDA to establish a clear process for any participant in the fixed income markets to file a complaint or raise an issue, from either a regulatory or policy perspective. This process should be available to the buy side, as well as to member firms, and the IDA should communicate what the process is so it is well known in the industry. Complaints about regulatory compliance; i.e. potential violations of rules or policies, should be filed with the Member Regulation Department.

The IDA currently administers a complaints process for retail investors through Member Regulation and this program should suffice to handle complaints from this customer group. The IDA may wish to examine whether there is a need to increase public awareness of the IDA's role in regulating fixed income markets through public relations or education initiatives.

Regulatory Approach

8. We recommend that the current principles-based approach to regulating the wholesale debt markets be maintained, subject to targeted improvements that will introduce elements of a more proactive, rules-based approach in specific areas. These areas, including several set out in these recommendations, should be selected based on demonstrated need or on principles of sound regulatory oversight. We do not recommend that an expansive set of codified rules be introduced to regulate the debt markets; reliance should continue to be placed on the principles set out in IDA Policy 5. The market regulation regime adopted must also recognize changes in market structure that are occurring as a result of the introduction of electronic trading systems and on-line brokerage services. The regulatory regime needs to address the entire market, not just the traditional market structure, and should do so in an integrated fashion.

Supporting Analysis

The current approach to regulating the wholesale debt markets is based on general principles of conduct. Many survey participants commented on the possibility of moving to a more prescriptive and proactive form of regulation, along the lines of equity market regulation.

The survey shows a strong consensus in favour of maintaining the current regulatory approach. The great majority of participants, including most regulators, do not feel that significant market integrity or compliance issues exist that would justify a more complex, costly and intrusive regulatory program. Even those who have concerns about market integrity do not believe expanded regulation is the right response.

Participants are concerned with the additional costs that would be imposed by a rules-based model, given the size and scope of the Canadian fixed income markets. In a concentrated market with declining liquidity, higher levels and costs of regulation are considered to be a potential threat to the liquidity, competitiveness and profitability of the market. The resources of both regulators and market participants can more profitably be directed to market development initiatives, such as fostering innovation, encouraging new entrants and developing an optimal level of transparency.

The small number of participants in the wholesale market was cited as another reason that a complex rulebook is not needed. Detailed “rules of the road” are not needed in this environment, which enables the market’s self-policing mechanisms, based on business incentives and market disciplines, to work effectively.

While a detailed Rulebook is not required in our view, this does not obviate the need to consider introduction of specific rules or policies to deal with issues that arise from time to time. This principle has been recognized in the past – for example, in addressing issues such as market corners and primary auctions of Government bonds.

In making this recommendation, we recognize it is necessary to strike the right balance between reliance on market disciplines and self-policing on the one hand, and observing sound standards of regulatory oversight on the other. Since the fixed income markets are a core component of the securities markets regulated by the CSA and the IDA, appropriate minimum standards of regulatory supervision should be defined and put in place at both the government and SRO levels, based on general principles of sound regulation.

It should also be recognized by all participants that acceptance of a principles-based model does not mean that regulators will not formally investigate allegations of serious violations, and take enforcement action as required. Serious breaches of fundamental principles or standards of conduct, including fraud, market manipulation and abusive sales practices, must be dealt with strictly. However, enforcement may be difficult in the absence of clear rules, so again a balance must be reached.

Finally, the regulatory regime must reflect the changing market structure. It is unlikely that the bond market will simply consist of an OTC dealer market going forward; it will likely incorporate dealers, alternative trading systems, dealers’ electronic systems and perhaps even exchanges in the future. Currently, at least 13 electronic bond trading systems operate in the US and European markets, comprising inter-dealer, multi-dealer and cross-matching systems. In addition, numerous on-line brokerage services offer trading in debt securities to retail customers. The Canadian market is likely to follow this trend.

9. The CSA should engage in broader consultations with other regulators, IDA and the securities industry going forward when considering changes to regulatory requirements governing fixed income markets. The regulators should also establish a framework to analyze the cost of proposed new rules and regulatory processes so that the costs are appropriately analyzed prior to any policy decisions being made towards the implementation of new regulatory requirements.

Supporting Analysis

Many participants, including other regulators, were critical of the CSA's lack of consultation in formulating regulatory policy relating to fixed income markets, such as the development of the ATS rules and transparency requirements. While some respondents have noticed an increased willingness on the part of CSA staff to consult and take advice, some feel that a stronger commitment to openness and responding to the comments and advice of market participants is required. We suggest that the CSA take additional steps to formalize their approach to consultations with the industry. An agreement with stakeholders on a consultation process will ensure that consultation occurs on proposals in a manner that meets participants' expectations.

Many participants mentioned the cost of expanded regulation, and the implications for the liquidity, competitiveness and degree of innovation in Canadian markets, as a significant concern. It was noted that regulators do not rigorously examine the real costs of implementing new rules or regulations, or regulatory programs, before proposing them.

Given the level of concern over costs and regulatory duplication, we recommend that the CSA and IDA establish a framework for analyzing the projected costs of regulatory proposals that can be employed as future proposals are brought forward. Such a framework should address the direct financial costs of implementing a proposal for the CSA, SROs, broker-dealers and other participants. In addition, potential indirect costs, such as the impact on liquidity and efficiency of the markets should also be examined. The costs should be analyzed against the demonstrated need for and the projected benefits of the proposal, with both costs and benefits being quantified to the greatest degree possible.

13.1.6 Notice of Publication of Materials Relating to Bourse de Montréal Inc. - Exemption from Recognition as a Stock Exchange, Exemption from Registration as a Commodity Futures Exchange and Exemption from Part 4 of OSC Rule 91-502 Trades in Recognized Options

**NOTICE OF PUBLICATION OF MATERIALS RELATING TO BOURSE DE MONTRÉAL INC.
EXEMPTION FROM RECOGNITION AS A STOCK EXCHANGE, EXEMPTION FROM REGISTRATION AS A COMMODITY FUTURES EXCHANGE AND EXEMPTION FROM PART 4 OF OSC RULE 91-502 TRADES IN RECOGNIZED OPTIONS**

I. Introduction

The Commission is publishing the following documents for comment:

(a) the application of the Bourse de Montréal Inc. (the Bourse) for an exemption from the requirement to be recognized as a stock exchange under the *Securities Act* (Ontario) (the Act), from the requirement to be registered as a commodity futures exchange under the *Commodity Futures Act* (Ontario) (the CFA), and from Part 4 of OSC Rule 91-502 *Trades in Recognized Options* (OSC Rule 91-502), and

(b) a draft exemption order.

II. Background

As part of the Memorandum of Agreement between the Canadian exchanges announced in March 1999, the Bourse became a derivatives exchange that trades options, commodity futures contracts and commodity futures options. Some equity securities were maintained, but have since been migrated to the TSX Venture Exchange.

In response to the restructuring of the exchanges, the CSA developed a lead regulator model of exchange regulation, which is outlined in an MOU published on September 13, 2002.[1] The lead regulator model provides that each exchange has a lead regulator and the other jurisdictions within which the exchange carries on business rely on that regulator to conduct front-line oversight of that exchange. Each lead regulator is obligated to report back to the other regulators on its oversight activities on a quarterly basis as well as annually to the CSA Chairs.

III. Bourse de Montréal

The Bourse is recognized as a self-regulatory organization by the Commission des valeurs mobilières du Québec (CVMQ) pursuant to a recognition order dated November 24, 2000 (the Recognition Order), which is attached to the draft exemption order as "Schedule A". The Recognition Order is currently being reviewed by the CVMQ in accordance with the terms of that order.

On September 26, 2000[2] the Commission granted the Bourse a temporary order exempting it from the requirement to be recognized as a stock exchange and registered as a commodity futures exchange. An amended, temporary order was issued on October 3, 2000[3] to reflect the demutualization of the Bourse on October 1, 2000. The order expires on January 31, 2003.[4]

The Bourse has applied to the Commission for a permanent exemption from:

(a) the requirement to be recognized as a stock exchange in section 21 of the Act,

(b) the requirement to be registered as a commodity futures exchange in section 15 of the CFA, and

(c) Part 4 of OSC Rule 91-502.

IV. Comments and Questions

You are invited to comment on the application of the Bourse and the draft exemption order. Please submit your comments in writing on or before January 13, 2003.

Please send to the address below two copies of your comments, addressed as follows:

John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 800, Box 55
Toronto, Ontario M5H 3S8
jstevenson@osc.gov.on.ca

If you are not sending your comments by email, please send a diskette containing the submissions (in Word).

Questions may be referred to:

Cindy Petlock
Manager, Market Regulation
(416) 593-2351
cpetlock@osc.gov.on.ca

Tracey Stern
Legal Counsel, Market Regulation
(416) 593-8167
tstern@osc.gov.on.ca

1 (2002), 25 OSCB 6019.

2 (2000), 23 OSCB 6652.

3 (2000), 23 OSCB 6862.

4 (2002), 25 OSCB 4023.

13.1.7 Bourse de Montréal Inc. - Application for Exemption from Recognition as a Stock Exchange Under Section 21 of the Securities Act, for Exemption from Registration as a Commodity Futures Exchange Under Section 15 of the Commodity Futures Act and for Certain Ancillary Exemptions

November 28, 2002

APPLICATION FOR EXEMPTION FROM RECOGNITION AS A STOCK EXCHANGE UNDER SECTION 21 OF THE SECURITIES ACT, FOR EXEMPTION FROM REGISTRATION AS A COMMODITY FUTURES EXCHANGE UNDER SECTION 15 OF THE COMMODITY FUTURES ACT AND FOR CERTAIN ANCILLARY EXEMPTIONS

Bourse de Montréal Inc. (the "Bourse") is currently recognized as a self-regulatory organization in Québec under section 169 of the *Securities Act (Québec)* which enables it to carry on the activities of an exchange in Québec.

The Bourse wishes to carry on business as a stock exchange and a commodity futures exchange in Ontario and hereby makes application to the Ontario Securities Commission (the "Commission") pursuant to section 147 of the Securities Act (the "Act") and 80 of the Commodity Futures Act (the "CFA") for an order exempting the Bourse from recognition as a stock exchange and from registration as a commodity futures exchange in Ontario.

The Commission granted the Bourse a temporary exemption from recognition as a stock exchange under section 21 of the Act and a temporary exemption from registration as a commodity futures exchange under section 15 of the CFA on June 25, 2002. The order granting the exemptions will terminate at the earlier of (i) the date that the Bourse is granted an order by the Commission recognizing it as a stock exchange and registering it as a commodity futures exchange or exempting it from the requirement to be recognized as a stock exchange and registered as a commodity futures exchange; and (ii) January 31, 2003.

Bourse de Montréal Inc. also hereby makes application to the Director for exemption pursuant to section 6.1 of OSC Rule 91-502 Trades in Recognized Options ("Rule 91-502") for an exemption from Part 4 of Rule 91-502

A. Corporate Structure and Services in Ontario

The Bourse was incorporated on September 29, 2000 pursuant to the *Companies Act (Québec)*. The Bourse is situated in Montréal, Québec and has an office in Toronto, Ontario. The Bourse is the successor corporation to the Montreal Exchange, which was incorporated by an act of the Legislative Assembly of Québec in 1874. By a blanket order of the Commission dated August 25, 1980 (as amended by a blanket order of the Commission dated August 22, 1989), trades on The Montreal Exchange were exempted, *inter alia*, from the provisions of section 33 of the CFA.

B. Recognition by the Commission des valeurs mobilières du Québec

The Bourse is recognized as a self-regulatory organization in Québec. The recognition criteria and regulatory oversight provided by the Commission des valeurs mobilières du Québec (CVMQ) in connection with the Bourse's recognition as a self-regulatory organization is substantially equivalent to that provided by the Commission in connection with recognized exchanges.

The criteria that govern the Bourse's recognition as a self-regulatory organization in Québec and that warrant the Bourse's exemption from recognition as a stock exchange under the Act and exemption from registration under the CFA are detailed below.

C. Basis for Exemptive Relief

1. Regulatory Oversight

The Bourse is subject to regulatory oversight by the CVMQ.

The Bourse has been advised that the Commission and the CVMQ have entered into a memorandum of understanding ("MOU") respecting the continued oversight of the Bourse by the CVMQ. Under the terms of the MOU, the CVMQ will be responsible for conducting the regulatory oversight of the Bourse and for conducting an oversight program of the Bourse for the purpose of ensuring that the Bourse meets appropriate standards for member and market operation and regulation.

The Bourse provides any proposed changes to its rules, policies and other similar instruments ("Rules") to the CVMQ for review and approval in accordance with the procedures established by the CVMQ, as amended from time to time.

The Bourse concurrently provides the Commission with copies of all Rules, Policies and other similar instruments that it files for review and approval with the CVMQ. The Bourse also provides copies of all final Rules to the Commission. All copies will be in both English and French.

2. Corporate Governance

The Bourse's governance structure provides for:

a) fair and meaningful representation having regard to the nature and structure of the Bourse;

b) appropriate representation on the Board of the Bourse and Board Committees of persons independent of the Bourse's shareholders that own or control, directly or indirectly, over 10% of its shares, Approved Participants, Foreign Approved Participants, Restricted Trading Permit Holders and employees ;

c) appropriate qualification, remuneration and conflict of interest provisions and limitation of liability and indemnification protections for directors, officers and employees of the Bourse generally.

3. Access

The Bourse has established written standards for granting access to trading through the trading facilities of the Bourse, which are designed to ensure that the Bourse does not unreasonably prohibit or limit access by a person or company to services offered by it.

The Bourse has established written standards that are designed to ensure that the Bourse does not unreasonably prohibit or limit access by a person or company to services offered by it.

The Bourse keeps records of:

a) each grant of access including for each Approved Participant, Foreign Approved Participant and Restricted Trading Permit Holder, the reasons for granting such access; and

b) each denial or limitation of access, including the reasons for denying or limiting access to any applicant.

4. Contract Specification Review

The Bourse provides all new contract specifications and amendments to the contract specifications to the CVMQ for review and approval in accordance with the procedures established by the CVMQ, as amended from time to time.

The Bourse ensures that it will provide the Commission with copies of all contract specifications and amended contract specifications that it files for review and approval with the CVMQ in both English and French. The Bourse will also provide copies of all approved contracts to the Commission.

5. Fees

Any and all fees imposed by the Bourse on its Approved Participants, Foreign Approved Participants and Restricted Trading Permit Holders are presently allocated on an equitable basis. Fees do not have the effect of creating barriers to access and are balanced with the criteria that the Bourse must have sufficient revenues to satisfy its responsibilities. The Bourse believes that the process established for setting fees is fair and appropriate.

6. Public Interest Rules and Policies

The Bourse has established Rules, Policies and other similar instruments that are fair and not contrary to the public interest and are designed, with respect to Approved Participants, Foreign Approved Participants and Restricted Trading Permit Holders to:

a) ensure compliance with securities and commodity futures legislation;

b) prevent fraudulent and manipulative acts and practices;

c) promote just and equitable principles of trade;

d) ensure a fair and orderly market, including preventing excessive trading; and

e) foster co-operation and co-ordination with persons or companies engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in, securities and derivatives instruments.

The Bourse does not:

a) permit unreasonable discrimination between Approved Participants, Foreign Approved Participants and Restricted Trading Permit Holders; or

b) impose any burden on competition that is not necessary or appropriate in furtherance of applicable securities legislation.

7. Regulatory Division of the Bourse

Bourse de Montréal Inc. has established and must maintain a separate Regulatory Division responsible for market regulation and member regulation. The Regulatory Division is under the control and supervision of a Special Committee, which is appointed by the Board of Directors of the Bourse. The Special Committee is presently composed of seven members, at least four of whom are independent members.

The Bourse must obtain prior approval from the CVMQ for any changes to the Division's administrative and organizational structure or to the Special Committee of the Regulatory Division, which may materially affect regulatory duties and operations. The Division is completely autonomous in accomplishing its functions and in its decision-making process. The Bourse prepares an annual report, including a report on the Division's operations.

The Division is operated on the basis that the Division's duties and operations are independent and structurally separated from the for-profit operations of the Bourse. The Division must perform its duties and operations based on the principle of self-financing and is not-for-profit. The Division is a separate business unit of the Bourse. The Bourse must ensure that the Division has the necessary resources to fulfil its market and member regulation functions. Decisions made by the Special Committee with respect to disciplinary matters or summary procedures are subject to CVMQ revision in accordance with the *Securities Act (Québec)*.

The mandate of market regulation is to endeavour to ensure that the Bourse operates honestly and fairly. The

focus of market regulation is investor protection and the need to have accurate and timely disclosure on which to base investment decisions.

The Bourse has enacted and adopted rules, policies and other similar instruments that are designed to ensure that its Approved Participants, Foreign Approved Participants and Restricted Trading Permit Holders shall be appropriately disciplined for violations of securities legislation and the rules, policies and other similar instruments of the Bourse. The Bourse's Rules, Policies and other similar instruments are available upon request.

The Bourse has means to monitor and actively monitors Approved Participants, Foreign Approved Participants and Restricted Trading Permit Holders and their representatives for compliance with securities legislation and the rules, policies and other similar instruments of the Bourse.

8. Financial Statements

The Bourse prepares annual audited financial statements, in accordance with Canadian GAAP and covered by a report prepared by an independent auditor submits these statements to the CVMQ.

9. System Security, Capacity and Sustainability

For each of its systems that support order entry, order routing, order execution, data feeds, trade reporting and trade comparison, capacity and integrity requirements, the Bourse shall promptly notify the CVMQ of any material systems failures or changes that could impact market operations.

10. Clearing and Settlement

The Bourse ensures that there is an adequate clearing and settlement system in place so that the requirements of contracts traded on the exchange are met. The Bourse ensures that settlement and clearing services are provided by a clearing agency recognized by the CVMQ and has policies and procedures in place to deal with problems related to settling and clearing negotiated contracts.

The Canadian Derivatives Clearing Corporation ("CDCC") is the clearinghouse for all trades in options, exchange traded interest rate and equity derivative contracts on the Bourse. CDCC is a wholly owned subsidiary of the Bourse. CDCC is recognized by the CVMQ as a self-regulatory organization and is therefore subject to all the requirements applicable to a self-regulatory organization.

Bourse de Montréal Inc. respectfully submits this application for exemption from recognition as a stock exchange under section 21 of the Securities Act, for exemption from registration as a commodity futures exchange under section 15 of the Commodity Futures Act and for certain ancillary exemptions.

November 28, 2002

Joëlle Saint-Arnault
Vice-president, Legal Affairs and Secretary

13.1.8 Bourse de Montréal Inc. - Draft Exemption Order

DRAFT EXEMPTION ORDER

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 C20,
AS AMENDED (the "CFA")

AND

IN THE MATTER OF
BOURSE DE MONTRÉAL INC.

ORDER
(Section 147 of the Act, section 80 of the CFA and section 6.1 of OSC Rule 91-502)

WHEREAS Bourse de Montréal Inc. ("the Bourse") has applied to the Ontario Securities Commission (the "Commission") for:

(a) an order pursuant to section 147 of the Act exempting the Bourse from the recognition requirement in section 21 of the Act; and

(b) an order pursuant to section 80 of the CFA exempting the Bourse from the registration requirement in section 15 of the CFA;

AND WHEREAS the Bourse has applied to the Director for an order pursuant to section 6.1 of OSC Rule 91-502 *Trades in Recognized Options* ("Rule 91-502") for an exemption from Part 4 of Rule 91-502;

AND WHEREAS deemed rule *In the Matter of Trading in Commodity Futures Contracts Entered Into On The Montreal Stock Exchange* issued August 25, 1980, and deemed rule *In the Matter of Trading In Commodity Futures Contracts and Commodity Futures Options Entered Into On The Montreal Exchange* issued August 22, 1989, exempt trades by and with registered dealers trading commodity futures contracts and commodity futures options entered into on the Bourse from section 33 of the CFA;

AND WHEREAS the Bourse has represented to the Commission and the Director as follows:

Corporate Structure, Recognition and Services in Ontario

1. The Bourse was incorporated on September 29, 2000 pursuant to the *Companies Act* (Québec).

2. On November 24, 2000, the Bourse was granted recognition as a self-regulatory organization to carry on business in Québec pursuant to section 169 of the *Securities Act,* R.S.Q., c. V-1.1, under Ruling No. 2000-C-0729 (the "Recognition Order, attached as Schedule "A") issued by the Commission des valeurs mobilières du Québec (the "CVMQ").

3. The Bourse is situated in Montréal, Québec and has an office in Toronto, Ontario.

4. The Canadian Derivatives Clearing Corporation ("CDCC") is a wholly-owned subsidiary of the Bourse and is recognized by the CVMQ as a self-regulatory organization.

Regulatory Oversight

5. The Bourse is subject to regulatory oversight by the CVMQ.

6. The Bourse has been advised that the Commission and CVMQ have entered into a memorandum of understanding ("MOU") respecting the continued oversight of the Bourse by the CVMQ. Under the terms of the MOU, the CVMQ will be responsible for conducting the regulatory oversight of the Bourse and for conducting an oversight program of the Bourse for the purpose of ensuring that the Bourse meets appropriate standards for market operation and member and market regulation.

7. The Bourse provides any proposed changes to its rules, policies and other similar instruments ("Rules") to the CVMQ for review and approval in accordance with the procedures established by the CVMQ, as amended from time to time.

8. The Bourse concurrently provides the Commission with copies of all Rules that it files for review and approval with the CVMQ. The Bourse also provides copies of all final Rules to the Commission. All copies are in both English and French.

Corporate Governance

9. The Bourse's governance structure provides for:

(a) fair and meaningful representation having regard to the nature and structure of the Bourse;

(b) appropriate representation on the Bourse's Board and its Board committees of persons independent of the Bourse's shareholders that own or control, directly or indirectly, over 10% of its shares, Approved Participants, Foreign Approved Participants, Restricted Trading Permit Holders, and employees;

(c) appropriate qualification, remuneration and conflict of interest provisions and limitation of liability and indemnification protections for directors, officers and employees of the Bourse generally; and

(d) appropriate conflict of interest provisions between

(i) the Bourse and CDCC;

(ii) the directors, officers and employees of CDCC and the directors, officers and employees of the Bourse; and

(iii) the Bourse and the Regulatory Division.

Access

10. The Bourse has established written standards for granting access to trading through the trading facilities of the Bourse.

11. The Bourse has established written standards that are designed to ensure that the Bourse does not unreasonably prohibit or limit access by a person or company to services offered by it.

12. The Bourse keeps records of:

(a) each grant of access including, for each Approved Participant, Foreign Approved Participant and Restricted Trading Permit Holder, the reasons for granting such access; and

(b) each denial or limitation of access, including the reasons for denying or limiting access to any applicant.

Contract Specification Review

13. The Bourse provides all new contract specifications and amendments to their contract specifications to the CVMQ for review and approval in accordance with the procedures established by the CVMQ, as amended from time to time.

14. The Bourse concurrently provides the Commission with copies of all contract specifications and amended contract specifications that it files for review and approval with the CVMQ in both English and French. The Bourse also provides copies of all approved contracts to the Commission.

Fees

15. Any and all fees imposed by the Bourse on its Approved Participants, Foreign Approved Participants and Restricted Trading Permit Holders are allocated on an equitable basis. Fees do not have the effect of creating barriers to access and are balanced with the criterion that the Bourse must have sufficient revenues to satisfy its responsibilities.

16. The process established by the Bourse for setting fees is fair and appropriate.

Public Interest Rules and Policies

17. The Bourse has established Rules that:

(a) are not contrary to the public interest;

(b) are fair; and

(c) are designed, with respect to Approved Participants, Foreign Approved Participants and Restricted Trading Permit Holders and their representatives, to:

(i) ensure compliance with applicable securities legislation;

(ii) prevent fraudulent and manipulative acts and practices;

(iii) promote just and equitable principles of trade;

(iv) ensure a fair and orderly market, including preventing excessive trading; and

(v) foster co-operation and co-ordination with persons or companies engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in, options, commodity futures contracts and commodity futures options.

18. The Bourse does not:

(a) permit unreasonable discrimination between Approved Participants, Foreign Approved Participants and Restricted Trading Permit Holders; or

(b) impose any burden on competition that is not necessary or appropriate in furtherance of applicable securities legislation.

Regulation by the Bourse

19. The Bourse is responsible for conducting member and market regulation of its Approved

Participants, Foreign Approved Participants and Restricted Trading Permit Holders.

20. The Bourse maintains a separate regulatory division called the Regulatory Division that has clearly defined market regulation responsibilities, responsibilities relating to the member regulation of Approved Participants, Foreign Approved Participants and Restricted Trading Permit Holders and a separate administrative structure. The Regulatory Division is governed by a special committee of the Board.

21. The Bourse has enacted and adopted Rules that are designed to ensure that its Approved Participants, Foreign Approved Participants and Restricted Trading Permit Holders and their representatives shall be appropriately supervised and disciplined for violations of securities legislation and the Rules of the Bourse.

22. The Bourse has the means to adequately monitor and actively monitors Approved Participants, Foreign Approved Participants and Restricted Trading Permit Holders and their representatives for compliance with securities legislation and the Rules of the Bourse.

23. The Bourse has the means to adequately monitor and actively monitors trading in its markets, including cross market conduct, for possible abuses.

Financial Statements

24. The Bourse prepares annual audited financial statements, in accordance with Canadian GAAP and covered by a report prepared by an independent auditor.

25. The Bourse provides the CVMQ with copies of the financial statements referred to in clause 24.

System Security, Capacity and Sustainability

26. The Bourse will promptly notify the CVMQ of any material systems failures or changes that could impact market operations, including trading and clearing operations.

Clearing and Settlement

27. The Bourse ensures that a clearing agency or clearinghouse (“clearing agency”) has adequate clearing and settlement system in place so that the requirements of contracts traded on the exchange are met. The clearing agency has policies and procedures to deal with problems relating to clearing and settling contracts.

28. CDCC is the clearing agency for all trades in options, commodity futures contracts and commodity futures options traded on the Bourse.

29. CDCC provides any proposed changes to its Rules to the CVMQ for review and approval in accordance with the procedures established by the CVMQ, as amended from time to time.

30. CDCC concurrently provides the Commission with copies of all Rules that it files for review and approval with the CVMQ. The CDCC also provides copies of all final Rules to the Commission. All copies are provided in English and French.

Additional Information

31. The Bourse will provide to the CVMQ and the Commission any information required under National Instrument 21-101 *Marketplace Operation*.

AND UPON the Commission being satisfied that the granting of an exemption from recognition and registration to the Bourse would not be contrary to the public interest;

AND UPON the Director being satisfied that an exemption from Part 4 of Rule 91-502 would not be contrary to the public interest;

IT IS HEREBY ORDERED by the Commission that pursuant to section 147 of the Act, the Bourse is exempt from recognition as a stock exchange under section 21 of the Act, and pursuant to section 80 of the CFA, the Bourse is exempt from registration as a commodity futures exchange under section 15 of the CFA;

AND IT IS HEREBY ORDERED by the Director that pursuant to section 6.1 of Rule 91-502, the Bourse is exempt from Part 4 of Rule 91-502;

PROVIDED THAT:

(a) The Bourse continues to be recognized as a self-regulatory organization by the CVMQ or its successor securities regulatory authority;

(b) The Bourse continues to be subject to such joint regulatory oversight as may be established and prescribed by the CVMQ and the Commission from time to time;

(c) The MOU referred to in clause 6 above has not been terminated;

(d) The Bourse provides any proposed changes to its Rules to the CVMQ for review and approval in accordance with the procedures established by the CVMQ. These procedures require the Bourse to file a concise statement of the nature, purposes and effects of the Rule, including the possible effects of the Rule on market structure, Approved

Participants, Foreign Approved Participants, Restricted Trading Permit Holders, competition and costs of compliance, a description of the context in which the Rule was developed, the process followed, the issues considered, the alternative approaches considered and rejected (including reasons), a review of the implementation plan and, if the Rule requires technology systems changes, a description of the implications of the Rule on systems and an implementation plan, where possible. The procedures also require publication of proposed public interest Rules for comment in English and in French.

(e) The Bourse concurrently provides the Commission with copies of all Rules that it files for review and approval with the CVMQ in both English and French. The Bourse also provides copies of all final Rules to the Commission within two weeks of approval by the CVMQ. The Bourse posts the final Rules, in English and French, on its website or makes them publicly available, as soon as practicable, and in any event, at least two weeks prior to the implementation of the Rule or Rule amendment.

(f) The Bourse provides all new contract specifications and amended contract specifications to the CVMQ for review and approval in accordance with the procedures established by the CVMQ, as amended from time to time. These procedures require the Bourse to file the Rules setting forth the contract specifications and to provide a description of the underlying market upon which the contract is based and

(i) for cash settled contracts, confirmation that the settlement of the contract is at a price reflecting the underlying market, will not be subject to manipulation or distortion and the settlement price is based on a price that is determined with reference to a price discovery process that is fair, transparent, efficient and publicly available;

(ii) for physical delivery contracts, confirmation that the specifications will result in a deliverable supply such that the contract will not be open to manipulation or distortion and the settlement of the contract is based on a price that is determined in reference to a price discovery process that is fair, transparent, efficient and publicly available.

(g) The Bourse concurrently provides the Commission with copies of all contract specifications and amended contract specifications that it files for review and approval with the CVMQ in both English and French. The Bourse also provides copies of all approved contracts to the Commission within two weeks of approval by the CVMQ. The Bourse posts the approved contracts, in English and French, on its website, as soon as practicable, and in any event, at least two weeks prior to the launching of a new product or two weeks before the effective date of the contract specifications.

(h) Upon request by the Commission to the CVMQ, the Bourse provides to the Commission through the CVMQ any information in the possession of the Bourse, or over which the Bourse has control, relating to Approved Participants, Foreign Approved Participants and Restricted Trading Permit Holders and their representatives and the market operations of the Bourse, including, but not limited to, Approved Participant, Foreign Approved Participant and Restricted Trading Permit Holder lists, shareholder lists, products, trading information and disciplinary decisions.

(i) The Bourse will, until such time as CDCC is recognized by the Commission as a recognized clearing agency under the Act and recognized clearing house under the CFA or is subject to joint regulatory oversight pursuant to the terms of a memorandum of understanding entered into between the CVMQ and the Commission,

(i) cause CDCC to continue to provide the Commission, concurrently with the CVMQ, with copies of all Rules that CDCC files for review with the CVMQ, including copies of all final CDCC Rules filed with the CVMQ and all copies shall be provided in English and in French;

(ii) cause CDCC to continue to provide the Commission, concurrently with the CVMQ, with copies of all audited financial statements and reports

prepared by an independent auditor in respect of CDCC's financial situation and operations;

(iii) cause CDCC to provide the Commission, concurrently with the CVMQ, with copies of all internal CDCC risk management reports intended for its members and any outside report, including any audit report prepared in accordance with section 5900 of the Canadian Institute of Chartered Accountants Handbook, on the results of an examination or review of CDCC's risk management policies, controls and standards undertaken by an independent person;

(iv) cause CDCC to promptly notify the Commission, together with the CVMQ, of any material failures or changes to its systems;

(v) cause CDCC to promptly notify the Commission, together with the CVMQ, of any material problems with the clearance and settlement of transactions in contracts traded on the Bourse, including any failure by a member of CDCC to promptly fulfil its settlement obligations that could materially affect the operations and financial situation of CDCC; and

(vi) promote within CDCC a corporate governance structure that minimizes the potential for any conflict of interest between the Bourse and CDCC that could adversely affect the clearance and settlement of trades in contracts or the effectiveness of CDCC's risk management policies, controls and standards.

(j) Within six months of the date of the recognition order issued by the CVMQ, the Board of Directors of the Bourse will be made up of at least 50% independent directors. Independent directors are those that are independent of the Bourse's Approved Participants, Foreign Approved Participants, Restricted Trading Permit Holders, officers, employees and shareholders that own or control, directly or indirectly, over 10% of the Bourse.

(k) The Bourse will, within one year of this order,

(i) develop, implement and maintain appropriate rules, policies or other similar instruments and systems designed to monitor insider trading activities;

(ii) use best efforts to enter into an agreement, and will implement procedures to co-ordinate surveillance, between the Bourse, any marketplace on which any security underlying the Bourse's product or a related security is traded, or the marketplace's regulation services provider to detect violations of insider trading prohibitions and rules against manipulative or abusive practices;

(iii) implement procedures to co-ordinate trading halts, in addition to circuit breakers, between the Bourse and any marketplace on which any security underlying the Bourse's product is traded, or its regulation services provider, and any other marketplace on which any related security is traded, or its regulation services provider; and

(iv) introduce written policies and procedures that monitor and address conflicts of interest between the Bourse and CDCC and the Bourse and the Regulatory Division.

IT IS HEREBY FURTHER ORDERED that the Bourse is deemed to be in compliance with clauses (d) to (g) and (i) unless the Bourse has been provided with written notice of non-compliance and failed to provide the documents or information within 10 business days of receipt of such written notice.

DATED this of , 2002

SCHEDULE "A"

CVMQ RECOGNITION ORDER OF THE BOURSE DE MONTRÉAL

RULING No. 2000-C-0729

RE: RECOGNITION OF THE BOURSE DE MONTRÉAL INC. AS A SELF-REGULATORY ORGANIZATION

WHEREAS a stock exchange must be recognized as a self-regulatory organization in order to carry on business in Québec pursuant to Section 169 of the *Securities Act* (R.S.Q., c.V-1.1) ("Act");

AND WHEREAS the Bourse de Montréal Inc., within the context of its demutualization project, has filed with the *Commission des valeurs mobilières du Québec* an application for recognition of the Bourse de Montréal Inc. as a self-regulatory organization;

AND WHEREAS the *Commission des valeurs mobilières du Québec*, has verified that the constituting documents, by-laws and operating rules of the Bourse de Montréal Inc. are in compliance with Sections 175 and 176 of the *Act;*

AND WHEREAS the *Commission des valeurs mobilières du Québec* considers that the financial resources and administrative structure of the Bourse de Montréal Inc. are adequate to its objects;

AND WHEREAS the Bourse de Montréal Inc. created a division responsible for market regulation ("Division") whose primary mission is to supervise the regulatory duties and operations of the Bourse de Montréal Inc.;

AND WHEREAS the *Commission des valeurs mobilières du Québec* sees fit to grant recognition to the Bourse de Montréal Inc., provided the terms and conditions are respected;

IN CONSEQUENCE THEREOF, the *Commission des valeurs mobilières du Québec*, pursuant to Section 174 of the *Act*, grants the Bourse de Montréal Inc. recognition as a self-regulatory organization to carry on business in Québec.

This recognition is granted based on the following terms and conditions:

For the purpose of this ruling, the terms "approved participant" and "shareholder" correspond to the term "member" within the meaning of the *Act*, with any necessary modifications.

I. SHARE OWNERSHIP

a) No person or persons associated with said person, shall be allowed to hold, own or exercise control, either directly or indirectly, over more than 10% of any class or series of voting shares of the Bourse de Montréal Inc.

b) The Bourse de Montréal Inc. shall inform the *Commission des valeurs mobilières du Québec* ("Commission") immediately in writing, if it becomes aware that any person or persons associated with said person, holds, owns or exercises control, either directly or indirectly, over more than 10% of any class or series of voting shares of the Bourse de Montréal Inc. and shall take the necessary steps to immediately remedy the situation, in compliance with Appendix 1 of the deed of incorporation.

c) The Bourse de Montréal Inc. shall submit to the Commission a list of its shareholders on a semi-annual basis, within 30 days of June 30 and December 31 of every year.

d) The Bourse de Montréal Inc. shall immediately inform the Commission in writing of any shareholder agreements that it is aware of.

II. CORPORATE STRUCTURE

a) Arrangements made by the Bourse de Montréal Inc. with respect to the appointment, removal from office, and functions of the persons ultimately responsible for making and enforcing the rules of the Bourse de Montréal Inc., namely the Board of Directors, its committees and the Special Committee -Regulatory Division (hereinafter called the "Governing Body"), shall ensure a proper balance between the interests of the different entities desiring access to the facilities of the Bourse de Montréal Inc. (hereinafter called "Approved Participants") and, in order to ensure diversity of representation on the Board, a reasonable number and proportion of directors shall not be associated with an Approved Participant within the meaning of the Bourse de Montréal Inc.'s by-laws. In particular, the Bourse de Montréal Inc. shall ensure that at least 50% of its directors shall consist of individuals who are not associated with Approved Participants within the meaning of the Bourse de Montréal Inc.'s by-laws and that a maximum of two of its directors shall be part of senior management at the Bourse de Montréal Inc.

b) Arrangements made by the Bourse de Montréal Inc. with respect to quorum at directors' meetings shall ensure that the number and make-up of directors necessary to constitute quorum and a proper balance between the interests of the different entities on the Board. In particular, the Bourse de Montréal Inc. shall ensure that quorum at directors' meetings is at least equal to the majority of directors.

c) Without limiting the generality of the foregoing, the Bourse de Montréal Inc.'s administrative structure shall provide for:

i) fair and meaningful representation on its governing body, given the nature and structure of the Bourse de Montréal Inc., and any governance committee thereto or similar body, and in the approval of its rules;

ii) appropriate representation of persons who are not associated with Approved Participants on the Bourse de Montréal Inc.'s committees, to which powers are delegated by the Board within the meaning of the Bourse de Montréal Inc.'s by-laws, with a minimum of 50%. A transitional period of one year has been granted to the Bourse de Montréal Inc. to ensure the application of this requirement by existing committees on the date of this ruling.

III. ACCESS

a) The Bourse de Montréal Inc. shall permit all dealers that satisfy the applicable regulatory requirements to access the trading facilities of the Bourse de Montréal Inc.

b) Without limiting the generality of the foregoing, the Bourse de Montréal Inc. shall:

i) establish written standards for granting access to trading on the Bourse de Montréal Inc.'s facilities;

ii) not unreasonably prohibit or limit access by a person or company to services offered by it; and

iii) keep records of:

- all granted access requests, specifying the entities to which access was granted in addition to the reasons for granting such access; and

- all denial or limitation of access, specifying the reasons for denying or limiting access to any applicant.

IV. FEES

a) Any and all fees imposed by the Bourse de Montréal Inc. on its Approved Participants and Restricted Trading Permit Holders shall be equitably allocated. Fees shall not have the effect of creating barriers to access; however, they must take into consideration that the Bourse de Montréal Inc. must have sufficient revenues to perform its duties and regulatory and stock market operations.

b) The Bourse de Montréal Inc.'s process for setting fees shall be fair and appropriate.

c) A list of fees required by the Bourse de Montréal Inc. shall be submitted to the Commission on an annual basis.

V. REGULATORY DIVISION

a) The Bourse de Montréal Inc. shall maintain a separate regulatory division, which shall fall under a special committee named by the Board with clearly defined market regulation responsibilities as well as Approved Participant and Restricted Trading Permit Holder responsibilities and a separate administrative structure.

b) The Bourse de Montréal Inc. shall obtain prior approval from the Commission for any changes to the Division's administrative and organizational structure or to the Special Committee – Regulatory Division, which may materially affect regulatory duties and operations.

c) The Division shall be completely autonomous in accomplishing its functions and in its decision-making process. The independence of the Division and its personnel shall be ensured and strict partition measures shall be established in order to prevent conflicts of interest with the Bourse de Montréal Inc.'s other activities.

d) The Bourse de Montréal Inc. shall provide the Commission with an annual report, including a report on this Division's operations prepared by the latter. This report shall include information that may be requested from time to time and shall take into consideration the observance of terms and conditions related to the Division and shall be in such form as may be specified by the Commission.

e) The Division shall promptly report to the Commission when there is reason to believe that there has been any misconduct or fraud by Approved Participants or their representatives, by Restricted Trading Permit Holders or other persons where investors, Approved Participants or their clients, Restricted Trading Permit Holders or the Canadian Investor Protection Fund or the Bourse de Montréal Inc. may reasonably be expected to suffer serious damage as a consequence thereof, including where the solvency of an Approved Participant or a Restricted Trading Permit Holder is at risk or there may exist material deficiencies in theirs supervisory or internal controls.

f) The Commission shall be notified on a monthly basis of: (i) all new investigations initiated by the Division, including the persons involved and the nature of the investigation; and (ii) all investigations which do not lead to disciplinary

proceedings and which are closed, including the date the investigation started, the conduct and persons involved and the disposition of the investigation.

g) A conflict of interest policy shall be established by the Bourse de Montréal Inc. to allow the personnel and members of the Special Committee – Regulatory Division to declare their interests and to foresee the possibility that a person may withdraw from a file and/or a ruling.

h) The Division shall obtain prior approval from the Commission before providing any regulatory duties or operations to other exchanges, self-regulatory organizations, persons operating Alternative Trading Systems or other persons.

i) The Division shall obtain prior approval from the Commission before subcontracting a portion of its regulatory duties or operations to other self-regulatory organizations.

j) Subject to any changes that may be agreed upon between the Bourse de Montréal Inc. and the Commission, the Division shall be operated on the following basis:

i) The Division's duties and operations shall be independent and structurally separated from the for-profit operations of the Bourse de Montréal Inc. The Division must perform its duties and operations based on the principle of self-financing and shall be not-for-profit.

ii) The Division shall be a separate business unit of the Bourse de Montréal Inc., which shall be governed by the Board of Directors of the Bourse de Montréal Inc. The Board shall establish a Special Committee – Regulatory Division (hereinafter called the "Special Committee") to oversee the duties and operations of the Division, which shall be made up of seven persons of which at least four shall not be associated with an Approved Participant within the meaning of the Bourse de Montréal Inc.'s "Rules Regarding the Special Committee – Regulatory Division." The quorum at meetings shall be five members of the Special Committee of which the majority shall be Independent Members within the meaning of the Bourse de Montréal Inc.'s "Rules Regarding the Special Committee – Regulatory Division."

iii) The chief operating officer of the Division (the "Vice-President – Regulatory Division") shall report any regulatory or disciplinary issues to the Bourse de Montréal Inc.'s Special Committee. The Vice-President – Regulatory Division, or the person designated by the Vice-President – Regulatory Division, shall be present at all meetings of the Special Committee relating to the duties and operations of the Division, unless otherwise indicated by the Special Committee, and shall provide information upon request to the Special Committee with respect to the duties and operations of the Division. The Special Committee and the Vice-President – Regulatory Division shall both be responsible for ensuring that the duties and operations of the Division are conducted appropriately.

iv) The Division's financial structure shall be separate and it shall operate on a cost-recovery basis. Any surplus shall be redistributed to Approved Participants, and any shortfall shall be made up by a special assessment by the Approved Participants or by the Bourse de Montréal Inc. upon recommendation to the Board by the Special Committee.

v) The Division shall have a separate budget, which shall be subject to the approval of the Board upon recommendation by the Special Committee and shall be administered by the Vice-President – Regulatory Division. The Division shall be allocated the necessary support from other departments of the Bourse de Montréal Inc., including in the technology area, in accordance with its budgets and reasonable requirements, while ensuring its independence.

vi) The Bourse de Montréal Inc. shall ensure that the Division has the necessary resources to fulfil its market and Approved Participant and Restricted Trading Permit Holder regulation functions and submit to the Commission, on an annual basis, the Division's budget as well as the report justifying the setting of annual fees charged to Approved Participants and Restricted Trading Permit Holders.

vii) The Bourse de Montréal Inc. shall adopt and use all reasonable efforts to comply with policies and procedures designed to ensure that confidential information concerning the Division's duties and operations is maintained in confidence and not shared inappropriately with the for-profit operations of the Bourse de Montréal Inc. or other persons.

viii) The Vice-President – Regulatory Division, the President, the Special Committee and the Board shall provide information with respect to the duties and operations of the Division to the Commission upon request.

ix) The Bourse de Montréal Inc. shall inform the Commission, on a semi-annual basis, of its staff complement, by function, specifying authorized, filled and vacant positions and any material changes or reductions in Division personnel, by function.

x) Management of the Bourse de Montréal Inc., including the Division Vice-President, shall at least annually self-assess the performance by the Division of its market and Approved Participant and Restricted Trading Permit Holder regulation functions and report thereon to the Special Committee, together with any recommendations for improvements. The Special Committee shall in turn report to the Board as to the performance by the Division of its market and Approved Participant and Restricted Trading Permit Holder regulation functions. The Bourse de Montréal Inc. shall provide the Commission with copies of such reports and shall advise the Commission of any proposed measures arising therefrom.

xi) Decisions made by the Special Committee with respect to disciplinary matters or summary procedures are revisable in accordance with the *Act*.

VI. FINANCIAL VIABILITY AND FINANCIAL REPORTS

a) The Bourse de Montréal Inc. shall maintain sufficient financial resources for the proper performance of its functions.

b) The Bourse de Montréal Inc. shall be in default and shall report without delay to the Commission when, calculated based on its non-consolidated financial statements:

i) its working capital ratio is less than or equal to 1.5:1 (current liquid assets i.e. cash, short-term investments, accounts receivable and long-term investments cashable at any time / current liabilities excluding deferred contributions);

ii) its cash flow / total debt outstanding is less than or equal to 20% (adjusted net earnings of items that do not affect liquidities i.e. amortization, deferred taxes and any other expenses that do not impact liquidities / short and long-term debts);

iii) its solvency ratio is less than or equal to 1.3:1 (total assets / total liabilities excluding deferred contributions);

iv) its financial leverage ratio is greater than or equal to 4.0 (total assets / capital).

c) Should the Bourse de Montréal Inc. fail to respect any of the above-mentioned financial ratios for a period of more than three months, the Bourse de Montréal Inc. shall promptly inform the Commission in writing of the reasons for the continued ratio deficiencies and the steps being taken to rectify the problem and reestablish its financial equilibrium. Furthermore, from the moment the Bourse de Montréal Inc. fails to respect the financial ratios for a period exceeding 3 months and until the ratio deficiencies have been eliminated for at least six months, the Bourse de Montréal Inc. shall not, without the prior approval of the Commission, make any capital expenditures not already reflected in the financial statements or make any loans, bonuses, dividends or other distributions of assets to any director, officer, related company or shareholder.

d) The Bourse de Montréal Inc. shall provide a report, attached with the quarterly financial statements, which shall include the monthly calculation of each ratio for the three months covered by the quarterly financial statements.

e) The Bourse de Montréal Inc. shall submit its annual consolidated and non-consolidated audited financial statements as well as those of each of its subsidiaries within 90 days following the end of the fiscal year.

f) The Bourse de Montréal Inc.'s quarterly consolidated and non-consolidated financial statements, as well as those of each of its subsidiaries, shall be submitted within 60 days following the end of each quarter.

g) Quarterly and annual audited financial statements shall include sectional information for the Division and any other financial information that shall be required by the Commission.

VII. SYSTEMS

For each of its systems that support order entry, order routing, order execution, data feeds, trade reporting and trade comparison, capacity and integrity requirements, the Bourse de Montréal Inc. shall promptly notify the Commission in writing of any material systems failures or changes that could impact market operations.

VIII. CLEARING AND SETTLEMENT

The Bourse de Montréal Inc. shall ensure that there is an adequate clearing and settlement system in place so that the requirements of contracts traded on the exchange are met. The Bourse de Montréal Inc. shall ensure that settlement and clearing services are provided by a clearing agency recognized by the Commission and shall have policies and procedures in place to deal with problems related to settling and clearing negotiated contracts.

IX DELEGATION OF POWERS

The delegations of powers pronounced by the Commission in accordance with the Act, which currently apply to the Bourse de Montréal Inc. pursuant to the ruling on the temporary exemption of recognition of the Bourse de Montréal Inc. as a self-regulatory organization, which was handed down on September 28, 2000, shall continue to apply with the necessary modifications until a new ruling to this effect is handed down by the Commission. The new ruling related to the delegation of powers shall be handed down within six months of this ruling.

X. PURPOSE OF RULES

The Bourse de Montréal Inc. shall, subject to the terms and conditions of this Recognition Ruling and the jurisdiction and oversight of the Commission in accordance with Québec securities laws, through the Division or otherwise, establish such rules, regulations, policies, procedures, practices or other similar instruments as are necessary or appropriate to govern and regulate all aspects of its business and internal affairs and shall in so doing specifically govern and regulate so as to:

i) seek to ensure compliance with securities legislation;

ii) seek to prevent fraudulent and manipulative acts and practices;

iii) seek to promote just and equitable principles of trade;

iv) seek to foster cooperation and coordination with persons or companies engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities.

XI. DISCIPLINE OF APPROVED PARTICIPANTS AND RESTRICTED TRADING PERMIT HOLDERS AND THEIR REPRESENTATIVES

The Bourse de Montréal Inc., through the Division, shall appropriately discipline its Approved Participants and Restricted Trading Permit Holders and their representatives for violations of securities legislation and by-laws, rules, regulations, policies, procedures, practices and other similar instruments of the Bourse de Montréal Inc.

XII. DUE PROCESS

The Bourse de Montréal Inc., including the Division, shall ensure that the requirements of the Bourse de Montréal Inc. relating to access to the facilities of the Bourse de Montréal Inc., the imposition of limitations or conditions on access and denial of access are fair and reasonable, including in respect of notices, an opportunity to be heard or make representations, the keeping of records, the giving of reasons and the provisions for appeals.

XIII. INFORMATION SHARING

The Bourse de Montréal Inc., including the Division, shall cooperate by the sharing of information and otherwise, with the Commission and its personnel, with the Canadian Investor Protection Fund and other Canadian exchanges, recognized self-regulatory organizations and regulatory authorities responsible for the supervision or regulation of securities, subject to the applicable laws concerning the sharing of information and the protection of personal information.

XIV. ADDITIONAL INFORMATION

Following implementation of the Alternative Trading System proposal, the Bourse de Montréal Inc. shall file any information required thereunder.

XV. MISCELLANEOUS

The terms and conditions of this document shall be reviewed by the Commission within 24 months from the date of this ruling to ensure that they are still adapted accordingly.

Montréal, November 24, 2000.

13.1.9 Discipline Penalties Imposed on Questrade Inc. (Formerly Quest Capital Group Ltd.) – Violation of By-Law 17.1

Contact:
Andrew P. Werbowski
Enforcement Counsel
(416) 943-5789

BULLETIN #3084
December 5, 2002

DISCIPLINE

DISCIPLINE PENALTIES IMPOSED ON QUESTRADE INC. (FORMERLY QUEST CAPITAL GROUP LTD.) – VIOLATION OF BY-LAW 17.1

Person Disciplined

The Ontario District Council of the Investment Dealers Association of Canada (the "Association") has imposed discipline penalties on Questrade Inc., formerly Quest Capital Group Ltd., at all material times a Member of the Association.

By-laws, Regulations, Policies Violated

On December 2, 2002, the Ontario District Council considered, reviewed and accepted a Settlement Agreement negotiated between Questrade Inc. and Association staff.

Pursuant to the Settlement Agreement, Questrade Inc. admitted that on January 8, 2002, between January 10 and 31, 2002 and on March 6, 2002, it failed to maintain risk adjusted capital in excess of zero, calculated in accordance with the Joint Regulatory Financial Questionnaire, contrary By-Law 17.1 of the Association.

Penalty Assessed

The discipline penalties assessed against Questrade Inc. include a fine in the amount of $20,000.00. In addition, Questrade Inc. is prohibited from disposing of or pledging any of its assets, equity or goodwill until the fine has been paid.

Questrade Inc. is also required to pay $4,500.00 towards the Association's costs of the investigation of this matter.

Summary of Facts

On January 28, 2002, the CFO of Questrade notified the Financial Compliance Division of the Association that its RAC had deteriorated and forwarded a calculation indicating a RAC deficiency of $51,000 after a concentration charge had been applied.

On January 29, 2002 Questrade sold out a security position to avoid an adverse effect on RAC. In reviewing the calculation of RAC, Financial Compliance Staff determined that Questrade was capital deficient at January 31, 2002 as result of an incorrect concentration charge calculation. This capital deficiency was addressed through the selling of security positions and the execution of a further sub-loan agreement.

At the request of the Financial Compliance Division, daily RAC calculations were performed and it was determined that Questrade was capital deficient on January 8, and from January 10 to 30, 2002.

A second instance of capital deficiency occurred on March 6, 2002 and was discovered on April 8, 2002 by Financial Compliance Staff. A short position in a security was entered into and this short position, combined with an existing long position in a different security, gave rise to a security concentration charge. The resultant capital deficiency was cleared in 6 business days rather than 5, as required by Association Regulations.

No client account balances suffered any losses as a result of these matters. Management of Questrade cooperated fully with the Association during its investigation.

Kenneth A. Nason
Association Secretary

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Chapter 25

Other Information

25.1 Exemptions

25.1.1 Return on Innovation Fund Inc. - s. 9.1

Headnote

Exemption granted to labour sponsored investment fund corporation to permit it to pay certain specified distribution costs out of fund assets contrary to section 2.1 of National Instrument 81-105 Mutual Fund Sales Practices.

Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as am.

Rules Cited

National Instrument 81-105 Mutual Fund Sales Practices.

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

AND

IN THE MATTER OF
NATIONAL INSTRUMENT 81-105
MUTUAL FUND SALES PRACTICES ("NI 81-105")

AND

IN THE MATTER OF
RETURN ON INNOVATION FUND INC.

EXEMPTION
(Section 9.1)

UPON the application (the "Application") of Return on Innovation Fund Inc. (the "Fund") to the Ontario Securities Commission (the "Commission") for an exemption pursuant to section 9.1 of NI 81-105 from section 2.1 of NI 81-105 to permit the Fund to make certain payments to participating dealers;

AND UPON considering the Application and the recommendation of staff of the Commission;

AND UPON the Fund and Return on Innovation Management Ltd. (the "Manager) having represented to the Commission that:

1. The Fund is a corporation incorporated under the *Canada Business Corporations Act* by articles of incorporation dated October 28, 2002. The Fund has applied for registration as a labour sponsored investment fund corporation pursuant to the *Community Small Business Investment Funds Act* (Ontario) and when so registered, will be a prescribed venture capital corporation under the *Income Tax Act* (Canada) (the "Tax Act").

2. A preliminary prospectus to qualify the issuance of shares of the Fund, dated October 28, 2002 was filed with the Commission on October 30, 2002 and a receipt was issued for the prospectus on that day.

3. The authorized capital of the Fund consists of an unlimited number of three different series of Class A Shares, designated Class A Shares, Series I, Class A Shares, Series II and Class A Shares, Series III (collectively, the "Class A Shares") and an unlimited number of Class B Shares. As of the date of this application there are no Class A Shares issued and outstanding. All of the issued and outstanding Class B Shares are owned by the sponsor of the Fund, ACTRA Toronto Performers (the "Sponsor").

4. The Manager, Return on Innovation Advisors Ltd. (the "Advisor") and the Sponsor (collectively, the Organizers") formed and organized the Fund.

5. The Prospectus provides that the Fund will pay registered dealers selling Class A Shares, sales and service commissions as follows:

   (a) with respect to dealers selling Class A Shares, Series I,

      i) a sales commission of 6% of the original issue price of the shares (the "Series I 6% Commission"), plus

      ii) an additional commission of 4% in lieu of any service fee being payable before the eighth anniversary of the date of issue of the shares (the "4% Commission");

      iii) after the eighth anniversary of the date of issue of the shares, dealers will be paid a service fee equal to 0.75% of the net asset value of the Class A Shares, Series I held by the clients of the dealer (the "Series I Service Fee");

(b) with respect to dealers selling Class A Shares, Series II,

i) a sales commission of 6% of the original issue price of the shares (the "Series II 6% Commission"), plus

ii) a service fee equal to 0.75% of the net asset value of the Class A Shares, Series II held by clients of the dealer (the "Series II Service Fee");

(c) with respect to dealers selling Class A Shares, Series III,

i) no sales commission will be paid by the Fund, (however, dealers selling Class A Shares, Series III may receive a commission of up to 2% of the original issue price of the shares which will be paid by the investor.) and

ii) a service fee equal to 1.25% of the net asset value of the Class A Shares, Series III held by clients of the dealer (the "Series III Service Fee).

6. For accounting purposes, the Fund will:

(a) Defer and amortize the amount paid or payable in respect of the Series I 6% Commission and the Series II 6% Commission to retained earnings on a straight line basis over eight years;

(b) Defer and amortize the amount paid or payable in respect of the 4% Commission to income on a straight line basis over eight years;

(c) Expense the Series I Service Fee, Series II Service Fee, and Series III Service Fee (collectively, the "Service Fees") in the fiscal period when incurred.

7. Due to the structure of the Fund, the most tax efficient way for the Series I 6% Commission, the Series II 6% Commission, the 4% Commission and the Service Fees (collectively as the "Distribution Costs") to be financed is for the Fund to pay them directly.

8. None of the Organizers have sufficient resources to pay the Distribution Costs and would be obliged to finance the obligation to pay the Distribution Costs through borrowings and would thereby incur borrowing costs.

9. In order for the Fund to comply with section 2.1 of NI 81-105, the Fund would have to increase the fees payable to the Organizers by an amount equal to the borrowing costs incurred by the Organizers, plus an amount required to compensate the Organizers for any risks associated with fluctuations in the net asset value of the Fund and therefore, fluctuations in the Organizers' fees. Requiring compliance with section 2.1 of NI 81-105 would cause the expenses of the Fund to increase significantly above those contemplated in the Prospectus.

10. The Fund undertakes to comply with all other provisions of NI 81-105. In particular, the Fund undertakes that all Distribution Costs paid by it will be compensation permitted to be paid to participating dealers under NI 81-105.

AND UPON the Commission being satisfied that to do so would not be prejudicial to the public interest;

NOW THEREFORE pursuant to section 9.1 of NI 81-105, the Commission hereby exempts the Fund from section 2.1 of NI 81-105 to permit the Fund to pay the Distribution Costs, provided that:

(a) the Distribution Costs are otherwise permitted by, and paid in accordance with NI 81-105;

(b) the Distribution Costs are accounted for in the Fund's financial statements in the manner described in paragraph 6 above;

(c) the summary section (the "Summary Section") of the (final) prospectus of the Fund has full, true and plain disclosure describing the commission of Class A Shares, Series I as a 10% initial sales commission, plus service fees after eight years. The Summary Section must be placed within the first 10 pages of the final prospectus;

(d) the (final) prospectus has full, true and plain disclosure explaining the services and value that the participating dealers would provide to investors in return for the Service Fees payable to them;

(e) the Summary Section of the (final) prospectus has full, true and plain disclosure explaining to investors that:

i) they pay the Series I 6% Commission, the 4% Commission and the Series II 6% Commission indirectly, as the Fund pays these commissions using investors' subscription proceeds, and

ii) a portion of the net asset value of the Fund is comprised of a deferred commission, rather than an investment asset; and

(f) this Decision shall cease to be operative on the date that a rule replacing or amending section 2.1 of NI 81-105 comes into force.

December 6, 2002.

"Mary Theresa McLeod" "Robert L. Shirriff"

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