The Ontario Securities Commission

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April 25, 2003

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The Ontario Securities Commission Administers the
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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Table of Contents

Chapter 1

Notices / News Releases

1.1 Notices

1.1.1 Current Proceedings Before The Ontario Securities Commission

APRIL 25, 2003

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
Suite 1700, Box 55
20 Queen Street West
Toronto, Ontario
M5H 3S8

Telephone: 416-597-0681 Telecopier: 416-593-8348

CDS **TDX 76**

Late Mail depository on the 19th Floor until 6:00 p.m.

- -

THE COMMISSIONERS

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Paul M. Moore, Q.C., Vice-Chair	—	PMM
Howard I. Wetston, Q.C., Vice-Chair	—	HIW
Kerry D. Adams, FCA	—	KDA
Derek Brown	—	DB
Robert W. Davis, FCA	—	RWD
Harold P. Hands	—	HPH
Robert W. Korthals	—	RWK
Mary Theresa McLeod	—	MTM
H. Lorne Morphy, Q.C.	—	HLM
Robert L. Shirriff, Q.C.	—	RLS

SCHEDULED OSC HEARINGS

DATE: TBA — **ATI Technologies Inc., Kwok Yuen Ho, Betty Ho, JoAnne Chang, David Stone, Mary de La Torre, Alan Rae and Sally Daub**

s. 127

M. Britton in attendance for Staff

Panel: TBA

DATE: TBA — **Jack Banks A.K.A. Jacques Benquesus and Larry Weltman***

s. 127

K. Manarin in attendance for Staff

Panel: PMM/KDA/MTM

* Larry Weltman settled on January 8, 2003

April 21 to 25, 2003

10:00 a.m. — **Phoenix Research and Trading Corporation*, Ronald Mock** and Stephen Duthie**

s. 127

T. Pratt in attendance for Staff

Panel: HLM/RWD

* Settled on March 13, 2003
** Settled on April 9, 2003

April 29, 2003

2:30 p.m. — **John Steven Hawkyard**
Settlement Hearing

s. 127

K. Manarin in attendance for Staff

Panel: RWD/KDA

May 6, 2003

10:00 a.m. — **Gregory Hyrniw and Walter Hyrniw**

s. 127

Y. Chisholm in attendance for Staff

Panel: TBA

May 12, 2003	**Michael Tibollo**
10:00 a.m.	s. 127
	T. Pratt in attendance for Staff
	Panel: TBA
May 20, 2003 to June 20, 2003	**M.C.J.C. Holdings Inc. and Michael Cowpland**
10:00 a.m.	s. 127
May 27, 2003 & June 10, 2003	M. Britton in attendance for Staff
2:30 p.m.	Panel: HIW/RWD
May 28 to 30, 2003	**First Federal Capital (Canada) Corporation and Monte Morris Friesner**
10:00 a.m.	s. 127
	A. Clark in attendance for Staff
	Panel: TBA
June 3, 2003	**Teodosio Vincent Pangia, Agostino Capista and Dallas/North Group Inc.**
2:00 p.m.	s. 127
	Y. Chisholm in attendance for Staff
	Panel: HLM/MTM
June 4, 2003	**Marlene Berry, Allan Eizenga, Richard Eizenga, Richard Jules**
9:00 a.m.	**Fangeat, Michael Hersey, Luke John Mcgee, Normand Riopelle and Robert Louis Rizzuto**
	s. 127
	T. Pratt in attendance for Staff
	Panel: TBA
June 16, 2003 to July 4, 2003	**Patrick Fraser Kenyon Pierrepont Lett, Milehouse Investment Management Limited, Pierrepont**
10:00 a.m.	**Trading Inc., BMO Nesbitt Burns Inc.*, John Steven Hawkyard[+] and John Craig Dunn**
June 26, 2003	s. 127
2:30 p.m.	K. Manarin in attendance for Staff
	Panel: TBA

* BMO settled Sept. 23/02
[+] April 29, 2003

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

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

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

Philip Services Corporation

S. B. McLaughlin

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

1.1.2 Proposed Extension of Certain Transition Periods of the MFDA - Notice of Commission Approval

PROPOSED EXTENSION OF CERTAIN TRANSITION PERIODS OF THE MFDA

NOTICE OF COMMISSION APPROVAL

The Ontario Securities Commission has approved the Mutual Fund Dealers Association of Canada's ("MFDA") proposed extension of two transition period provisions. The transition period provisions suspend the monthly financial reporting requirement on MFDA members under MFDA Rule 3.5.1(a) and automatic early warning sanctions set out in MFDA Rule 3.4. The MFDA proposed to extend the suspension of these two MFDA Rules for another year until March 2004. The proposed extensions intend to allow MFDA members to become familiar with the MFDA financial reporting requirements, while the MFDA reviews its current financial reporting and early warning requirements. Description of the proposed extension and the proposed MFDA Member Regulation Notice are published in Chapter 13 of this Bulletin.

1.1.3 CSA Staff Notice 55 – 310 Questions and Answers on the System for Electronic Disclosure by Insiders (SEDI)

CANADIAN SECURITIES ADMINISTRATORS
STAFF NOTICE 55 – 310
QUESTIONS AND ANSWERS ON
THE SYSTEM FOR ELECTRONIC DISCLOSURE BY INSIDERS (SEDI)

TABLE OF CONTENTS

3.1.3 If you are a mutual fund whose insiders must file insider reports, do you have to file issuer information on SEDI as an issuer?
3.1.4 If the insiders of a SEDI issuer are exempt from insider reporting requirements, does the SEDI issuer file issuer information on SEDI ?
3.1.5 Why do I need to file on SEDI as an issuer?
3.1.6 Who can file for an issuer?
3.1.7 Can an issuer have several issuer representatives?
3.1.8 What do I need to file on SEDI?
3.1.9 How do I file issuer information on SEDI?
3.1.10 Do issuers pay fees to file on SEDI? What are they, how are they paid and when?
3.1.11 What do I do if cannot access SEDI to file issuer information?

3.2 Issuer Profile Supplement
3.2.1 What is an issuer profile supplement?
3.2.2 When do I need to file an issuer profile supplement?
3.2.3 What if I do not file the issuer profile supplement on SEDI?
3.2.4 How do I designate the issuer's outstanding securities?
3.2.5 How do I designate the following types of securities?
3.2.6 Do I need to file an issuer profile supplement if the issuer is only offering limited partnership units?
3.2.7 What derivatives can I select as a category of securities?
3.2.8 What securities can I designate under the 'Equity' category?
3.2.9 What securities can I designate under 'Debt' category?
3.2.10 What if a class of securities on the drop-down list box of security designations is no longer issued or outstanding?
3.2.11 What if I entered the wrong type of security? Can I remove it?
3.2.12 Who is an insider affairs contact?
3.2.13 Why do I need to give insider affairs contact information?
3.2.14 How does a SEDI issuer change its information on SEDI?
3.2.15 Do I designate in the issuer profile supplement all types of issued securities, not just the ones issued currently to the insiders?
3.2.16 If I issue securities through both an employee share purchase plan (ESOP) and a dividend reinvestment plan (DRIP), do I have to create two separate security designations for common shares of the ESOP and common shares of the DRIP?

3.3 Issuer Event Report
3.3.1 What is an issuer event?
3.3.2 What is an issuer event report?
3.3.3 Who must file an issuer event report?
3.3.4 When do I need to file an issuer event report?
3.3.5 What information do I need to file?
3.3.6 Why do I need to file this report?
3.3.7 What if I do not file this report?
3.3.8 Do I file one report or several reports if a number of transactions comprise the issuer event?
3.3.9 What information do I need to provide in the 'Issuer event details' field?
3.3.10 What if there is not enough space in the 'Issuer event details' field to adequately describe the event?
3.3.11 Can I provide some information just to the securities regulators that is not viewable by the public?
3.3.12 When do I file an issuer event report versus a material change report?
3.3.13 What is the "Effective date" on an issuer event report form?

4. INSIDER INFORMATION
4.1 General
4.1.1 Do I have to use SEDI to file my insider reports?
4.1.2 Do I have to file my reports myself?
4.1.3 What do I need to file on SEDI?
4.1.4 When do I need to file my trades on SEDI?
4.1.5 Do I need to do anything on SEDI before using SEDI to report my trades?
4.1.6 Can I make a filing after I have completed the online registration form on SEDI but before my registration has been validated?
4.1.7 What if I need to file my insider profile or insider reports and SEDI is unavailable?

4.2 Insider Profile
4.2.1 What is an insider profile?
4.2.2 When do I file an insider profile?

Appendix A
Securities Commissions and CDS INC.: Contact and Web Site Information

INTRODUCTION

The System for Electronic Disclosure by Insiders (SEDI) is the electronic insider reporting system available over the Internet at **www.sedi.ca**. To help you file and search for information on SEDI, the Canadian Securities Administrators (CSA) have prepared these questions and answers (the QAs). However, they also represent a guide for general use. In any individual cases of doubt, the user should obtain legal advice as to their status under the securities laws.

The QAs cover questions on reporting and searching on SEDI. You may also wish to consult CSA Staff Notice 55-308 *Questions on Insider Reporting* (the November Notice). The November Notice contains questions and answers on insider reporting in general and how to report your insider trades on the insider report paper form (Form 55-102F6).

SEDI replaces paper-based reporting of insider trading data for insiders of most issuers. SEDI requires insiders to file electronically their insider reports, and issuers to file electronically certain information, over the Internet, using the SEDI web site. The public can also search for and view public information filed on SEDI over the same web site.

For information on the implementation of SEDI, please see CSA Staff Notice 55-309 *Launch of the System for Electronic Disclosure by Insiders (SEDI) and Other Insider Reporting Matters* which tells insiders and issuers the steps they need to take to begin filing on SEDI.

How are the QAs organized?

The QAs are divided into different sections based on the logical or technical steps in the filing process on SEDI and the type of SEDI filer - insider or issuer. There is also a section at the end on how the public can access filings on SEDI.

To file on SEDI, you or your agent need to follow these steps:

- register as a user

  and

- file issuer information
  - issuer profile supplement
  - issuer event reports

  or

- file insider information
  - insider profile
  - insider reports.

Please also refer to Appendix A for information on how to contact the various Securities Commissions and the SEDI operator. Appendix A also includes the web site addresses of Securities Commissions that publish information on SEDI and the web site address of the Canadian Securities Administrators. Some of the Securities Commissions' web sites include a list of questions and answers from information sessions held in 2001 by some provincial Securities Commissions. You can also look in the 'Frequently Asked Questions' of the online help to be available on the SEDI web site.

Some defined terms

To help you understand some of the frequently used defined terms referred to in the QAs, here is a list of these terms, along with their meanings.

CDS means CDS INC., the company developing and managing SEDI on behalf of the CSA

CSA means the Canadian Securities Administrators

NI 55-101 means National Instrument 55-101 *Exemption from Insider Reporting Requirements,* dated May 11, 2001

NI 55-102 means National Instrument 55-102 *System for Electronic Disclosure by Insiders (SEDI*), dated October 19, 2001*

SEC means the United States Securities and Exchange Commission

SEDAR means the System for Electronic Document Analysis and Retrieval

SEDI means the System for Electronic Disclosure by Insiders

SEDI issuer means a reporting issuer, other than a mutual fund, that is required to comply with National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)*

***** Certain housekeeping amendments to NI 55-102 have been approved in some jurisdictions but not yet finalized in all relevant jurisdictions.

1. GENERAL

The System for Electronic Disclosure by Insiders (SEDI) replaces paper-based reporting of insider trading data for insiders of most issuers. Before filing data on SEDI over the Internet at www.sedi.ca, SEDI issuers and their insiders must take certain steps.

As a SEDI issuer (or agent of), you need to:

- ***ensure your existing SEDAR profile is accurate and complete***
- ***register on SEDI***
- ***file an issuer profile supplement including information about your outstanding securities held by insiders***

And then on a continuous basis:

- ***file issuer event report(s) (to report stock dividends, stock splits, etc.)***
- ***amend your profile supplement if there is any change in the information disclosed***

As an insider (or agent of) of a SEDI issuer, you need to:

- ***register on SEDI***
- ***file an insider profile***

And then on a continuous basis:

- ***file insider reports within 10 days of any change in your ownership***
- ***amend your profile if there is a change in the information disclosed***

1.1 Who must use SEDI?

The following persons and companies must use SEDI:

- SEDI issuers (reporting issuers, other than mutual funds, that file disclosure documents electronically through SEDAR) – to file their issuer profile supplement and issuer event reports
- insiders of SEDI issuers – to file their insider profile and insider reports

Therefore, SEDI issuers and their insiders (or agents on their behalf) must use SEDI to file insider and issuer information as well as to report certain transactions and events.

The public has free access to public information contained on the SEDI web site and can search for and view insider and issuer information filed on SEDI.

1.2 What computer systems requirements do I need to use SEDI?

Generally, you can use SEDI if you can access the Internet from your computer. Recommended Internet connection and browser versions are:

- Modem or Internet connection of 56K BPS or faster
- Microsoft Internet Explorer (version 5.5x or 6.0x) or Netscape Communicator (version 6.2.3x).

We advise you not to use Netscape Communicator 4.7 so as to avoid potential printing problems.

1.3 Who do I call for help with SEDI?

Depending on the type of help you need, call your Securities Commission or the SEDI operator at the CDS INC. Helpdesk.

For example, if you have filing or compliance-related questions regarding SEDI, such as

- how to use SEDI to report your insider trades
- what information you need to enter on SEDI
- who must register to use SEDI
- when must you report trades

contact your Securities Commission (see Appendix A);

Or, if you are having technical problems using SEDI, such as

- seeing error messages on the screen
- forgetting your password
- needing your access key reset
- having printing problems

contact the CDS INC. Helpdesk from 7 am to 11 pm EST, Monday to Friday toll-free at 1-800-219-5381 for assistance in English or French.

1.4 Do I need to pay to use SEDI?

Only SEDI issuers have to pay an annual service charge related to SEDI. (See question 3.1.10 for more detailed information on fees payable by these issuers.) The information on **www.sedi.ca** is available free of charge to the public. There are no service charges payable either by insiders for filing on SEDI or by the public for accessing information filed on SEDI.

1.5 How do I access SEDI?

Go to the SEDI Internet web site at **www.sedi.ca**. On the introductory page of the web site, select the language in which you wish to use the site, either French or English. A 'Welcome to SEDI' page will then appear. If you just want to search for information filed on SEDI, click on the 'Access public filings' link.

If you need to file information for the first time, you must register as a user by clicking on *'Register as a SEDI user'.* For more information on registering, please see section 2.1 (General) under Part 2 (Registration).

1.6 When can I use SEDI?

You can use SEDI 24 hours a day, seven days a week, subject to service interruptions for system maintenance.

1.7 What if I am an insider and SEDI is not available?

If you experience unanticipated technical difficulties which make SEDI unavailable, you can meet your obligations to file your insider report by filing your report in paper format with the relevant Securities Commissions no later than two days after your report is due. As soon as practicable after the technical difficulties have been resolved, you must re-file your report on SEDI.

Prepare your report using Form 55-102F6 and write the words "TEMPORARY HARDSHIP EXEMPTION FILING" in capital letters at the top of the front page.

In such circumstances you may wish to read Part 4 of NI 55-102 which sets out the temporary hardship exemption.

1.8 Where can I find the legal requirements for SEDI?

You can find them in the various provincial Securities Acts, Regulations and local Rules, and in NI 55-102 and its related documents.

NI 55-102 contains the legal requirements for the electronic filing in SEDI of insider reports and related issuer information. The legal documents are:

- NI 55-102
- Six related forms

  55-102F1 *Insider Profile*

  55-102F2 *Insider Report*

  55-102F3 *Issuer Event Report*

  55-102F4 *Issuer Profile Supplement*

  55-102F5 *SEDI User Registration Form*

  55-102F6 *Insider Report (Paper Form)*

- Companion Policy 55-102CP

You can find these documents on the web sites of the various Securities Commissions and on the CSA web site (www.csa-acvm.ca). See Appendix A for a list of each Securities Commission web site.

1.9 Where can I get information about how to use SEDI?

You can get information from the SEDI web site itself at **www.sedi.ca**. It has an online help function which contains a user guide, a list of frequently asked questions (FAQs), and detailed guidance.

You can also get additional information on SEDI through the:

- Securities Commissions' web sites and contact numbers, and CSA web site (see Appendix A), or
- CDS INC. Helpdesk – 1-800-219-5381(Toll Free) for technical assistance.

Please see question 1.3 for when to contact the SEDI operator, CDS, and when to contact a Securities Commission.

1.10 As an insider, issuer representative or agent, will all the information I enter on SEDI be publicly available?

Filings are public information. However, certain personal information will not be made publicly available. Information that will be kept confidential includes your:

- home address including postal code, but excluding municipality, province, territory, state and/or country
- insider's telephone number
- insider's fax number and e-mail address
- choice of language for correspondence (French or English)
- confidential question and answer
- additional contact information
- private remarks to securities regulatory authority

- name of insider affairs contact
- address of insider affairs contact
- telephone number, e-mail address or fax number of insider affairs contact
- all of the information submitted in the SEDI User Registration Form (55-102F5).

For information on the public availability of SEDI information, please see Part 1 of the Companion Policy 55-102CP to NI 55-102 and its Appendix A which are available on the Securities Commissions' web sites.

1.11 What are some of the technical features I should keep in mind when using SEDI?

- **Browser Back Button** – Try not to use your browser 'Back' button to navigate on SEDI. Where it affects system operability, SEDI will disable the use of your browser's 'Back' button. In these instances, clicking the browser 'Back' button will not return you to a prior screen – you will remain on the current screen. In the alternative, SEDI will bring you to a screen indicating that you have performed an unauthorized sequence of actions.
- **Browser Stop Button** – If for any reason you click the browser 'Stop' button, you must click the browser 'Refresh' button in order to proceed.
- **Cancel Button** – The 'Cancel' button will delete all information previously entered and will cancel the current option. For example, if you selected 'Create insider profile' and decide in mid-process that you prefer another option, you would click the 'Cancel' button. SEDI would display the previous option you had selected.
- **Certify Button** – The 'Certify' button is used to confirm that the information filed electronically is true and complete in every respect. In the case of a filing agent, the certification is based on the agent's best knowledge, information and belief.
- **Language** – The SEDI site is fully bilingual (French and English). You can change to the other language within the site by returning to the '*Welcome'* page and clicking the appropriate language button.
- **Next Button** – The 'Next' button appears when SEDI prompts you to provide additional information where needed.
- **No Draft Capability** – SEDI has no draft capability. Make sure you have all the necessary information with you before you begin to file. For security reasons, if you stop entering information on SEDI for more than 20 minutes you will lose all the information you just entered and you will be temporarily locked out of SEDI for 30 minutes. You will have to log in and enter the information again.
- **'Not Applicable' Checkbox** – All SEDI fields are mandatory, except for certain search criterion fields in the public reports. If the fields do not apply in your case, place a check mark in the 'Not Applicable' checkbox.
- **Printer Friendly Version Button** – Use the 'Printer friendly version' button to display a separate browser window with pre-formatted data that was previously entered. SEDI will trigger a print window offering you print options.

2. REGISTRATION

Before filing any information on SEDI, an insider, issuer representative or agent must register as a user on SEDI. To do so, you need to:

- ***go to the SEDI web site (www.sedi.ca) and click on 'Register as a SEDI User'***
- ***follow the screen instructions and complete Form 55-102F5 - Register as a SEDI user***
- ***print the completed form that is dated and time stamped, and sign it in the space provided***
- ***fax or send it to the SEDI operator, CDS, at the address provided on Form 55-102F5 (fax: 1-866-729-8011)***

CDS will then process your registration and activate your SEDI user account.

In order for any of your filings to be valid, you must complete this registration process and have your account activated by CDS as a SEDI user.

2.1 General

2.1.1 Do I need to register to use SEDI?

You need to register on SEDI only if you need to file something on SEDI. If you simply want to search for information on the web site you do not need to be registered.

You must be an individual to register on SEDI. An issuer that files information as an insider or issuer must use an individual that is an issuer representative or agent.

2.1.2 What information do I need to provide to register as a SEDI user?

You need to provide the following information:

- your name
- name of your employer and your position (if you are registering as an agent)
- your address (your principal residence if you are an insider or your business address if you are an agent or issuer representative)
- your daytime telephone number
- your fax number if available
- your e-mail address if available
- the capacity in which you will be using the system, i.e., as an insider, as agent for an insider(s) and/or issuer(s), or as an issuer representative. (You can select more than one designation.)
- confidential question and answer (see question 2.1.7)

Note: You should register on SEDI only once, even though you may be an agent for many insiders.

2.1.3 In what capacity should I register on SEDI?

You should register either as an insider, issuer representative or agent user, or a combination of these.

Each category of user has different functions on SEDI that the user can access. Depending on the category chosen, you will be able to log on to the relevant user home page with the various functions available. Please see questions 2.1.4, 2.1.5 and 2.1.6.

2.1.4 When should I register as an insider?

You should register as an insider if you are an insider and you will only be filing an insider profile and insider reports for yourself and no one else. Otherwise, if you are filing insider profiles and insider reports for one or several insiders (other than yourself), you should register as an agent (see question 2.1.6), and not as an insider.

2.1.5 When should I register as an issuer representative?

You should register as an issuer representative when all you are going to do is file the issuer profile supplement for one issuer and any issuer event reports for that one issuer. If you are filing for more than one issuer, you should register as an agent (see question 2.1.6), not as an issuer representative.

2.1.6 When should I register as an agent?

You should register as an agent when you will be filing:

- insider information for one or several insiders other than yourself
- issuer information for more than one issuer
- insider and issuer information for yourself, several insiders and an issuer.

Please see section 2.2 - Agents.

2.1.7 What is the confidential question and answer I need to give?

If you forget your password, the SEDI operator will ask you this question to verify that you are who you say you are. You should provide a question for which only you would know the answer. For example, "What is your favourite movie?", rather than "What colour is the sky?". You must also provide an answer to the question.

2.1.8 When do I need to register?

You need to register in order to file information on SEDI. For an issuer, you need to register before you file your issuer profile supplement or issuer event report. For an insider, you need to register before you file your insider profile or initial insider report on SEDI.

2.1.9 How do I register on SEDI?

Go to the SEDI web site (**www.sedi.ca**). After you have selected the appropriate language, click on 'Register as a SEDI user', and follow the instructions to enter the required information. When you are finished, click 'Next' (See the following question for the next steps.)

2.1.10 Once I enter all the information on the registration form (Form 55-102F5), how do I have it validated?

- After entering all the information, including your confidential question and answer to it, you click 'Next'.
- SEDI will then display the *Register as a SEDI user – Accept terms of use – SEDI user* page.
- Read the *Terms of Use - SEDI user* and the *Collection and use of personal information* notice and click 'Accept'.
- SEDI will then display the *Register as a SEDI user - Certify and submit registration information - Form 55-102F5* page. Click 'Certify'. SEDI will then display the *Certification* page. Click 'OK'.
- SEDI will then display the *Register as a SEDI user - Conditional registration completed* page, which will list your SEDI user ID and password. While on this screen, you can either write your SEDI user ID and password down or click on the 'Print' button on your browser bar at the top of the page to get a screen print with your SEDI user ID and password. (Note that passwords are case-sensitive and keep them in a confidential secure place.) You will need them to log on to SEDI in the future.
- To complete your SEDI registration, click 'Printer friendly version' to get a copy of your registration form. You will not get your password on this printout.
- Sign your registration form and then either fax, deliver or courier it to the SEDI operator, CDS, using the appropriate address or fax number listed on the form. The SEDI operator will then validate it.

2.1.11 How long will it take for the SEDI operator to validate my registration?

The SEDI operators processing the forms at CDS anticipate a turnaround time of 24 hours, assuming your form is properly completed and signed. However, you are encouraged to register well before you need to file an insider report or an issuer profile supplement.

2.1.12 Can I file information on SEDI before my registration is validated?

If you are registered as an insider or agent for an insider and are filing an insider report, you can make conditional filings while your registration form is being validated, but this filing will not be made publicly available until your registration is validated. Please see section 4.1 for more detailed information about conditional filings for insiders. Then, once your registration is validated, your filing is a valid filing and will be made public.

However, as an issuer representative or agent for an issuer, you cannot file an issuer profile supplement or an issuer event report until your registration as a SEDI user is validated.

2.1.13 How do I find out if my account has been validated?

To know if your account has been validated, log on SEDI and click 'Your user information'. Verify the Registration status field on the *View your user information* page. If your SEDI user account has been validated, your registration status should display the word 'Activated'.

2.1.14 What if my information changes after I have submitted the form?

You can electronically make changes to your SEDI registration form by amending, certifying and submitting the changes to the form online on SEDI. See the SEDI online help available on the SEDI web site for instructions. However, we also recommend that you then print the form and fax it to the SEDI operator, CDS (fax: 1-866-729-8011).

2.1.15 Can I still submit my user registration without entering a postal/zip code because I reside outside North America?

Yes. You do not need to enter a postal code or zip code if you live outside North America. Complete the field by entering 'not applicable'.

2.2 Agents

2.2.1 Can an issuer or an insider have several agents?

Yes. For example, if an individual is an insider of several SEDI issuers, and each of these issuers has made arrangements to file insider reports on behalf of that individual, then it is possible that this individual will have a different agent for each issuer.

2.2.2 Can a law firm register as an agent?

No. Only individuals can register as agents.

2.2.3 Can law clerks register as agents?

Yes, any individual can register. Therefore, any number of law clerks at a particular law firm can register. Each user should register individually so that he or she has his or her own user ID and password.

2.2.4 Can I register as an insider, an issuer representative and an agent?

Yes, if you fulfill multiple roles, you can register as an issuer representative, an insider and an agent. However, you should select the category that best suits your activity. If you are an insider and will only be filing insider reports for yourself, you should register as an "insider".

If you will be filing:

- insider information for one or several insiders other than yourself
- issuer information for more than one issuer
- insider and issuer information for yourself, several insiders and an issuer

then you should register as an agent.

Please see question 2.1.6.

2.2.5 Do insiders who will only file through an agent need to register on SEDI?

No.

2.2.6 Do issuers who will only file through an agent need an issuer representative?

No

2.2.7 As an agent, how do I access each of my client's filings?

You will need to have each client's access key. If you set up a client's insider profile or issuer profile supplement, SEDI will give you their access key. If someone else sets up the client's profile information, you will need to request the access key from your client.

2.2.8 Do I, as the agent for an insider, have to file a power of attorney for insider reports filed on SEDI?

No. However, if you, as an agent, are filing an insider report in paper (under the temporary hardship exemption or otherwise – see question 4.3.1.6), you still need to file with the relevant Securities Commission a power of attorney. The CSA intend to amend NI 55-102 so that you will not need to file a power of attorney for an insider report filed in paper under the temporary hardship exemption.

2.2.9 Can I, as an agent, register someone else as a user?

No. You, as an agent, cannot register someone else as a user. The paper format copy of the user registration form, which is sent to the SEDI operator for validation purposes, must contain the manual or facsimile signature of the individual being registered.

2.3 Passwords

2.3.1 How many passwords and keys will I have as an agent?

You will have one password as an agent. You will be issued a user ID and a password for yourself that you will need to log on. In addition, if you are filing for an insider, you will be given an insider number and a distinct access key for each insider whose insider profile you create. If you are filing for an issuer, you will be given a distinct access key for each issuer whose issuer profile supplement you create.

2.3.2 What if I can't remember my password?

Call the SEDI operator CDS Helpdesk at 1-800-219-5381. You will be asked a number of questions, including the confidential question you provided when you registered. If your answer is correct, a SEDI operator will give you a single use password. You will need to use this single use password the next time you log on. After logging on, SEDI will generate a new permanent password for you.

2.3.3 When am I issued my password and ID, as opposed to my access key? How are they different?

You will be issued a password and a SEDI user ID after you complete, certify and submit your SEDI user registration on the system. The password is tied to the SEDI user ID and allows you, as that user, to log on to SEDI.

Each time you create an insider profile or an issuer profile supplement, SEDI will display an insider number (if you are an insider) and an access key online to you as creator of the profile. In addition, SEDI will also send a letter containing the access key to the insider or issuer.

An access key is an alpha-numeric code that allows you, as an agent, insider, or issuer representative, to make a filing after the insider profile or issuer profile supplement is created**.** The system gives one access key per profile.

3. ISSUER INFORMATION

SEDI issuers need to file certain information on SEDI. These requirements are new. SEDI issuers must create their issuer profile supplement before insiders can file their insider reports.

As a SEDI issuer, you need to:

- ***ensure your SEDAR profile is accurate and up to date***
- ***register on SEDI (see Part 2 - Registration)***
- ***file your issuer profile supplement (including a list of your publicly traded outstanding securities) on SEDI***

And then on a continuous basis:

- ***file any change in the information disclosed***
- ***file on SEDI an issuer event report when required***

3.1 General

3.1.1 Which issuers must use SEDI?

All reporting issuers, except mutual funds, that file disclosure documents in SEDAR, must file information on SEDI unless exempted. These issuers are referred to as SEDI issuers.

3.1.2 Do labour sponsored investment fund corporations (LSIFs) have to file issuer information on SEDI?

The answer depends on the province(s) where the LSIF is a reporting issuer (or equivalent). In certain jurisdictions, such as Alberta, LSIFs and their insiders do not have to file on SEDI because LSIFs are considered mutual funds. In other jurisdictions, such as Ontario and Manitoba, LSIFs and their insiders must file on SEDI because LSIFs are not considered to be mutual funds for insider reporting purposes.

3.1.3 If you are a mutual fund whose insiders must file insider reports, do you have to file issuer information on SEDI as an issuer?

Mutual fund issuers are not required to file issuer information on SEDI. Mutual funds are not "SEDI issuers" as defined in NI 55-102. However, because insiders of a few mutual funds must file insider reports due to, for example, an order of a Securities Commission, we suggest that these issuers voluntarily file on SEDI by setting up an 'Other Issuer Profile' in SEDAR. Such a fund issuer should use the 'Mutual Fund Issuer Profile' to make all filings on SEDAR and the 'Other Issuer Profile' solely to allow the fund to file an issuer profile supplement on SEDI.

3.1.4 If the insiders of a SEDI issuer are exempt from insider reporting requirements, does the SEDI issuer file issuer information on SEDI ?

Generally, the SEDI issuer will still be required to file information on SEDI. However, the SEDI issuer may file an application requesting an exemption from the requirements to file an issuer profile supplement and issuer event reports on SEDI for the period during which the insiders of this issuer have an exemption from insider reporting requirements. The application is made under section 6.1 of NI 55-102.

3.1.5 Why do I need to file on SEDI as an issuer?

As a SEDI issuer, you are required to file certain information on SEDI. You need to file this information so that your insiders can meet their legal obligation to file insider trade reports on SEDI. This information also helps your insiders to file accurate insider trade reports.

3.1.6 Who can file for an issuer?

An agent or issuer representative registered as a SEDI user can file information on SEDI for an issuer.

3.1.7 Can an issuer have several issuer representatives?

Yes, but each issuer can only have one insider affairs contact.

3.1.8 What do I need to file on SEDI?

As a SEDI issuer, you need to file:

- an issuer profile supplement (see 'Issuer Profile Supplement' section)
- issuer event reports if an issuer event has occurred (see 'Issuer Event Report' section)
- and any change in the information disclosed.

The issuer profile supplement contains information about the issuer, including the designations of its outstanding securities that its insiders hold, and contact information for the person responsible for insider affairs. The legal form is Form 55-102F3.

The issuer event report contains information about an issuer event. An issuer event is a stock dividend, stock split, consolidation, amalgamation, reorganization, merger or other similar event that affects all holdings of a class of the issuer's securities in the same manner. The legal form is Form 55-102F4.

3.1.9 How do I file issuer information on SEDI?

You must be a registered user and have an active user account (see Part 2 - Registration). Once registered and validated, log onto the system. At your home page, select 'Create issuer profile supplement' in order to create the issuer profile supplement for the issuer. Simply follow the on-screen instructions to complete the process. Once this process is completed, you will obtain the issuer access key.

To file an issuer event report once an issuer event has occurred, you must log on to SEDI and enter the issuer access key for that issuer. From the *Issuer activities* page, click 'Issuer event report' and follow the on-screen instructions to complete the process.

3.1.10 Do issuers pay fees to file on SEDI? What are they, how are they paid and when?

SEDI issuers pay fees, but these are fees payable in the SEDAR system as SEDAR annual filing service charges related to SEDI. The fees for 2003 are to be implemented by the SEDAR operator, CDS, in SEDAR in a code update on May 12, 2003. The annual filing service charges for 2003 are set out in CSA Staff Notice 13-311 *Changes to SEDAR Annual Filing Service Charges*.

The timing and amount of these increases in the SEDAR annual filing service charges vary, depending on the type of SEDI issuer. The prorated SEDI fees for 2003 are as follows: single-jurisdiction issuers will pay $165.00, multi-jurisdiction issuers will pay $495.00 and short form prospectus issuers will pay $1,650.00. These charges are in addition to any SEDAR annual charge. For 2003, the portion of the SEDAR annual filing service charges that relates to SEDI covers an eight month period. Fees for each subsequent year will cover a 12-month period.

Insiders and the public will not be charged any fees to use the system.

3.1.11 What do I do if cannot access SEDI to file issuer information?

If SEDI is unavailable due to technical difficulties for more than a short period, the CSA would consider, depending on the jurisdiction and the circumstances, providing blanket relief from, or refraining from implementing, the filing requirements, or varying the time periods for filing during the period of service interruption.

If unanticipated technical difficulties prevent a SEDI issuer from filing issuer information on SEDI, then that issuer must file that information as soon as practicable after these difficulties have been resolved.

3.2 Issuer Profile Supplement

3.2.1 What is an issuer profile supplement?

The issuer profile supplement provides certain information about the issuer, particularly relating to its outstanding securities held by insiders, that is additional to the information the issuer files on SEDAR. The issuer profile supplement must contain the information required under Form 55-102F3.

As a SEDI issuer, you need to designate on your issuer profile supplement all types of securities that your insiders hold. However, we recommend that you designate at a minimum all your publicly traded outstanding securities.

3.2.2 When do I need to file an issuer profile supplement?

You need to file an issuer profile supplement within three business days after the issuer becomes a SEDI issuer. For issuers who were SEDI issuers and filed issuer profile supplements while SEDI was operational before February 1, 2002, you need to file a new and current issuer profile supplement. Please see CSA Staff Notice 55-309.

3.2.3 What if I do not file the issuer profile supplement on SEDI?

If you do not file an issuer profile supplement, you will be in breach of securities law. The Securities Commissions can take certain actions against issuers not complying with the law, including placing the issuer on a public default list.

Also, by not filing your issuer profile supplement, your insiders will not be able to file their reports on SEDI. You will cause unnecessary inconvenience to them. Your insiders will have to file paper reports relying on the temporary hardship exemption.

After you do complete your issuer profile supplement, your insiders will have to file again on SEDI every report already filed in paper when they relied on the temporary hardship exemption.

3.2.4 How do I designate the issuer's outstanding securities?

To create a security designation for an outstanding security that an insider holds, you need to do the following for each security:

- select the security category (Debt, Equity or Issuer derivative)
- select the security name (from a drop down list)
- if you need to, you can type in a brief description of a particular security so there is no confusion with a security that may be similar
- if you selected 'Issuer derivative' in the first step, you need to select the underlying security. To do this:
    - select the securities category of the underlying security (Debt, Equity or Issuer derivative)
    - select the underlying security name
    - if applicable, enter any additional words to describe the specific underlying security

You do not need to designate all your outstanding securities. As a SEDI issuer, although you need only designate your outstanding securities that your insiders hold, we recommend that you designate at a minimum all your publicly traded securities.

See the following question for examples on how to designate specific securities.

3.2.5 How do I designate the following types of securities?

1.	Asset-backed securities	a) Select	'Equity' category
2.	Options* (exercisable into common shares under plan) for the options for the underlying security (common shares)	 a) Select b) Select c) Describe d) Select e) Select f) Describe	 'Issuer derivative' category 'Options' as security name (if needed, add description) 'Equity' category 'Common shares' as security name (if needed, add description)
3.	Convertible debentures	a) Select b) Select c) Describe	'Debt' category 'Convertible debentures' as security name (if needed, add description)

* See also the questions and answers under section 4.3.2 - Derivatives Reporting for an explanation of "issuer derivatives" and "underlying security".

Suggestion: Together, the security name and description will appear as one of the designated securities on this issuer's list of securities. Its insiders will see and select from this list in order to report transactions and holdings in securities of that issuer. Make sure to enter any additional words used to describe the specific security or class of security that will distinguish this security or class of security from another that will allow your insider to choose the appropriate security. SEDI will compute and total balances of securities that have the same designation.

3.2.6 Do I need to file an issuer profile supplement if the issuer is only offering limited partnership units?

Yes, unless the limited partnership is a SEDI issuer only in Manitoba.

3.2.7 What derivatives can I select as a category of securities?

A derivative is a financial instrument that derives its value from an underlying interest or security.

For SEDI, derivatives that are securities may be classified as either issuer derivatives or third party derivatives. Issuer derivatives are derivatives such as options, warrants and rights issued by a company or other entity directly to its insiders. You

can select 'Issuer derivative' as a category of security if you, as the issuer, have issued the derivatives. You would then select the appropriate name of the security: 'options', 'rights', 'warrants' or 'other'. If necessary, you could also add a brief description to the name of the security.

A SEDI issuer cannot designate a third party derivative. Third party derivatives are designated by the insider when the insider files an insider report for those securities. Futures, forwards and exchange-traded call or put options are examples of third party derivatives.

3.2.8 What securities can I designate under the 'Equity' category?

You can designate, for example, common shares, preferred shares, non-voting shares and multiple voting shares under the 'Equity' category.

3.2.9 What securities can I designate under 'Debt' category?

You can designate, for example, bonds, debentures, convertible debentures and notes under the 'Debt' category.

3.2.10 What if a class of securities on the drop-down list box of security designations is no longer issued or outstanding?

You should amend your issuer profile supplement and indicate that this security is now to be listed as an 'Archived security'. Insiders will still be able to report transactions in these securities, using the 'Archived security' list.

3.2.11 What if I entered the wrong type of security? Can I remove it?

No. You must contact your Securities Commission (see Appendix A) and request that the SEDI operator remove that security from your list of designated securities. The SEDI operator can only remove the security after receiving written authorization from the issuer's representative to remove it.

3.2.12 Who is an insider affairs contact?

An insider affairs contact is the contact person for an issuer whom any of the Securities Commissions will contact regarding the issuer and the issuer profile supplement, if there is an issue that a Securities Commission needs to discuss with that issuer. You need to include this individual's business address, business telephone number and business e-mail address on the issuer profile supplement.

3.2.13 Why do I need to give insider affairs contact information?

When an insider creates an insider profile and therefore specifies that insider's relationship with at least one SEDI issuer, SEDI will send an e-mail notification to the insider affairs contact for that issuer. If at any point the issuer has any concerns about the individual identified as the insider, the issuer should contact their local Securities Commission.

3.2.14 How does a SEDI issuer change its information on SEDI?

Your issuer information on SEDI is composed of the information you filed on SEDAR (SEDAR profile) and the information you filed on SEDI under the issuer profile supplement. Your SEDAR profile information is automatically transferred over to SEDI.

Your issuer profile supplement includes your:

- issuer name
- insider affairs contact information
- security designations
- confidential question and answer.

You need to amend SEDI information, such as your insider affairs contact information and security designations, on SEDI as an amended issuer profile supplement. You need to amend SEDAR information, such as your head office or mailing address, on SEDAR.

If you need to change this information filed on SEDI, log on, go to the *Issuer Profile Supplement* page, and follow the on-screen instructions. If you need to change the information that comes from SEDAR, you need to contact your SEDAR filing agent and have the agent amend this information.

3.2.15 Do I designate in the issuer profile supplement all types of issued securities, not just the ones issued currently to the insiders?

No. However, we suggest you designate all your publicly traded securities. See question 3.2.4.

3.2.16 If I issue securities through both an employee share purchase plan (ESOP) and a dividend reinvestment plan (DRIP), do I have to create two separate security designations for common shares of the ESOP and common shares of the DRIP?

No. Issuers who create security designations should not create separate security designations for common shares acquired through different automatic share purchase plans.

3.3 Issuer Event Report

3.3.1 What is an issuer event?

An issuer event is a stock dividend, stock split, consolidation, amalgamation, reorganization, merger or other similar event that involves the issuance of securities affecting all holdings of a class of securities of a SEDI issuer in the same manner. A cash dividend, for example, would not be an issuer event reportable on SEDI.

3.3.2 What is an issuer event report?

It is a report filed by a SEDI issuer on SEDI. This report provides notice to insiders that an issuer event has occurred. It helps insiders to more accurately report changes in their securities holdings that may result from the issuer event. The information that you need to complete this report is set out in Form 55-102F4.

3.3.3 Who must file an issuer event report?

A SEDI issuer whose securities have been affected by an issuer event must file an issuer event report.

3.3.4 When do I need to file an issuer event report?

You need to file an issuer event report no later than one business day following the occurrence of an issuer event. For example, for a stock split, you report the event within one business day after the issuer issues the securities resulting from the stock split. As a preferred practice, you should report the event following the close of markets on the day of the event or before the opening of the markets on the day after the event occurred. See question 3.3.13.

3.3.5 What information do I need to file?

The information is set out in Form 55-102F4. This information includes the:

- issuer event type (e.g., stock dividend, stock split, reorganization)
- date the issuer event occurred
- brief description of the issuer event (e.g., 3 for I Stock Split – Class A and Class B Shares)
- summary of the issuer event details.

The online help guide (available on the SEDI web site by clicking 'Help') gives additional instructions on how to complete the report and provides examples.

3.3.6 Why do I need to file this report?

The report notifies your insiders that an issuer event has occurred that may affect their holdings. It helps them to accurately report changes in their holdings in the securities affected by the event. Whenever you file an issuer event report, an alert will appear on the screen the next time an affected insider logs on to SEDI. The alert notifies the insider an issuer event report was filed and identifies the particulars of that event.

3.3.7 What if I do not file this report?

You are in breach of your obligations under securities law as a SEDI issuer. In addition, your insiders may not be able to file accurate reports reflecting changes in their securities holdings arising as a result of the issuer event.

3.3.8 Do I file one report or several reports if a number of transactions comprise the issuer event?

One report can be used to report several 'sub-events' in connection with the same event, all happening on the same day. However, you should fully describe all pertinent 'sub-events' in the issuer event title and issuer event details fields.

For example, an issuer event can be an amalgamation that is composed of a share exchange and also a consolidation (of the resulting company's) share capital. You would report the event as follows:

- Issuer event: Amalgamation, merger or reorganization
- Issuer event title: Amalgamation of ABC Ltd. and KLM Corp. into XYZ Ltd and consolidation of KLM Corp. shares
- Issuer event details: describe the relevant information for both the amalgamation and consolidation aspects of the event.

3.3.9 What information do I need to provide in the 'Issuer event details' field?

You need to include a description of the issuer event by providing the following information:

- a description of the affected securities along with their respective numbers or amounts, as disclosed in the issuer profile supplement, for that issuer
- the name of the resulting issuer, if applicable
- designation of all resulting securities along with their respective numbers or amounts, if applicable
- the exchange or conversion rates, if applicable
- a description of the resulting securities as created in the issuer profile supplement in SEDI, if applicable
- the number of resulting securities rounded up or down to the nearest share.

Include a description of the issuer event in either English or French, or both where appropriate.

3.3.10 What if there is not enough space in the 'Issuer event details' field to adequately describe the event?

You should provide a summary of the event. However, to the extent that more space is needed, consider cross-referencing a public document that adequately discloses the necessary information about the event.

3.3.11 Can I provide some information just to the securities regulators that is not viewable by the public?

Yes, you can provide additional information concerning the issuer event to staff of the securities regulatory authorities in the 'Private remarks to securities regulatory authority' field. The public, including the issuer's insiders, will not have access to this information.

3.3.12 When do I file an issuer event report versus a material change report?

You need to file an issuer event report when an event affects the entire class of securities in the same manner. This may also be a material change in which case you will also need to file a material change report. However, not all material changes are issuer events. For example, while a company buy-back of shares might be considered a material change, it would not be an issuer event. Please see question 4.3.3.1 for how to report transactions under a normal course issuer bid.

3.3.13 What is the "Effective date" on an issuer event report form?

The "Effective date" is the date on which the change to the number of securities happens as a result of the issuer event. It is the date of the occurrence of the event. See question 3.3.4.

4. INSIDER INFORMATION

Insiders of SEDI issuers must file insider trade reports in electronic format using SEDI. To file your insider trade reports on SEDI, you need to:

- ***register as a SEDI user (or use a registered user as your agent) (see Part 2 - Registration)***
- ***file your insider profile (see section 4.2 - Insider Profile)***
- ***file your insider trade reports when they are due (see section 4.3 - Insider Report)***

4.1 General

4.1.1 Do I have to use SEDI to file my insider reports?

If you are an insider of a SEDI issuer, you need to file your reports using SEDI unless you have been exempted. In certain cases, you may file insider reports in paper rather than on SEDI. Please see question 4.3.1.6 below for a list of exceptional situations where you would file your report in paper.

4.1.2 Do I have to file my reports myself?

No, you do not. You can have an agent that is registered as a SEDI user file the reports for you. (See Part 2 - Registration)

4.1.3 What do I need to file on SEDI?

As an insider, you (or your agent) must file on SEDI your insider profile (see section 4.2 - Insider Profile) and your insider trade reports (see section 4.3 – Insider Report).

4.1.4 When do I need to file my trades on SEDI?

You need to file your insider reports on SEDI 10 calendar days following the date:

(i) you became an insider, if you own (or have control or direction over) securities of a SEDI issuer, or

(ii) your ownership of, or control or direction over, securities of the SEDI issuer changed, if you are already an insider.

SEDI issuers are reporting issuers, other than mutual funds, that file disclosure documents on SEDAR. You can check the SEDAR web site, **www.sedar.com**, to find out whether your company files disclosure documents on SEDAR.

4.1.5 Do I need to do anything on SEDI before using SEDI to report my trades?

To use SEDI to report your insider trades, you need to first register as a SEDI user. To register, complete the SEDI User Registration Form (Form 55-102F5), sign a printed copy and send it to the SEDI operator (CDS). The SEDI operator will review your registration request and, once validated, will activate a user account for you on SEDI. You can file insider reports on a conditional basis while you wait to have the registration process completed. Please refer to Part 2 - Registration.

However, you do not need to register or report trades on SEDI yourself. You can use an agent, an individual who is already registered as a SEDI user, to file for you.

4.1.6 Can I make a filing after I have completed the online registration form on SEDI but before my registration has been validated?

Yes, you can make what is called a conditional filing for your insider profile or your insider report, or both. However, conditional filings are not considered valid filings until your registration is validated. Conditional filings are not publicly available. Once the registration process is complete, any conditional filings will be made publicly accessible.

4.1.7 What if I need to file my insider profile or insider reports and SEDI is unavailable?

Please see question 1.7.

4.2 Insider Profile

4.2.1 What is an insider profile?

An insider profile contains information identifying you as the insider, and your relationship with one or more SEDI issuers. The information required is set out in Form 55-102F1. You must not file more than one insider profile.

4.2.2 When do I file an insider profile?

You need to file your insider profile after you or your agent are registered as a SEDI user, but before any of your insider reports are due (10 calendar days after the trade or 10 calendar days after becoming an insider).

4.2.3 Do I have to create an insider profile if I do not have any securities transactions or holdings to report?

No.

4.2.4 What information do I need to include in my insider profile?

You need to include:

- full legal name (if an individual insider)
- company name (if not an individual insider)
- full legal name of individual representative of insider (if insider is not an individual)
- residential address (business address for insider's representative, if insider is not an individual)
    - street name and number, etc.
    - municipality (city, town, etc.)
    - province, territory or state
- postal code or zip code (if North America)
- country of residence
- daytime telephone number
- confidential question and answer (see next paragraph)
- the date you became an insider of the SEDI issuer (if you have not already filed an insider report for the issuer) or the opening balance date (if you have previously filed an insider report for this issuer) (see next paragraph)
- relationship with an issuer
- registered holders (if applicable)
- date you ceased to be an insider (when applicable)

For the confidential question and answer, you should provide a question for which only you would know the answer. For example, "What is your favourite movie?" rather than "What colour is the sky?" You must provide an answer to this question. If you forget your password, the SEDI operator will ask you this question to verify that you are who you say you are.

The opening balance date will be used for all opening balances for this issuer and should be a date prior to the date of any transactions to be reported for this issuer on SEDI.

4.2.5 What do I need to do if I'm an insider of several companies?

You need to file one insider profile and indicate the names of all the companies of which you are an insider. If you use an agent to file for you, we recommend that you only use one. However, if you choose to have different people file insider reports for you

for these different companies, you must make sure that only one insider profile is created for you. You may wish to have one agent set up the profile for you, and then share your access key with all of your other filing agents.

4.2.6 What if the information in my insider profile changes?

You need to amend your profile on SEDI. You must do this within 10 days if you change your name or your relationship to a SEDI issuer, or if you cease to be an insider of a SEDI issuer. For other changes, you can amend your profile the next time you have to file an insider report.

4.2.7 What if I cannot find a SEDI issuer in the database that I need to add to my insider profile?

You should contact the issuer to ask whether the issuer has filed its issuer profile supplement on SEDI. If the issuer has not yet done so, it may be in default of its reporting requirements and you will be unable to file an insider report on SEDI for any securities of that issuer. Encourage the issuer to file its issuer profile supplement so that you can file your insider profile. You may also contact your local Securities Commission as soon as possible to advise them of this.

If your report is due and you cannot file your insider report on SEDI because the issuer has not filed its issuer profile supplement, you can file your report in paper under the temporary hardship exemption. However, when you become aware that the issuer has filed its issuer profile supplement, you will have to re-file your insider report on SEDI. See NI 55-102, section 4.1. See question 4.3.1.6 below (temporary hardship exemption).

4.2.8 Do I need to add the name of the broker or depository as the registered holder of the securities if I own the securities directly?

No. For insider reporting, the term “registered holder” means the entity through which you beneficially own or control securities such as an RRSP, holding company, family trust, or the person or company that owns the securities over which you have control or direction. Securities owned directly but held through a nominee such as a broker or book-based depository (i.e., CDS) are considered direct holdings. See Form 55-102F1, item 14, and Form 55-102F2, item 6.

4.2.9 When do I need to add registered holders and in what circumstances?

Whenever you create an insider profile and file an insider report, SEDI will prompt you to indicate how you (or your insider, if you are an agent, filing for an insider) hold the securities.

You can hold your securities in the following three ways:

(1) You can hold them directly. For example, you can hold the securities in an account with your broker, but the account is in your name.

(2) You can hold them indirectly. For example, you beneficially own common shares in X Co. but the registered owner is another entity such as a holding company, an RRSP, or a family trust.

(3) You can have control or direction over them. You have control or direction over the securities if you, directly or indirectly, through any contract, arrangement, understanding or relationship or otherwise have or share

- voting power, or
- investment power.

This would include having control or direction over the securities through a power of attorney, a grant of limited trading authority, or management agreement. For example, you set up a trust for your children in which Co. X securities are held. Because of your relationship with your children, you need to report your children’s holdings, because you could direct your children to purchase or sell those securities. This may also be the case if your spouse owns the securities, but you have control or direction over those securities.

If you choose either ‘Indirect’ or ‘Control or Direction’, SEDI will prompt you to add the name of a registered holder. The registered holder is the entity through which you beneficially own the securities, such as an RRSP, holding company, family trust, or the person or company that owns the securities you have control or direction over.

4.2.10 If I am no longer an insider, what do I have to do on SEDI?

You have to amend your insider profile to indicate you have ceased to be an insider of that issuer. (See item 12 of Form 55-102 F1).

4.2.11 What is the additional contact information that I can provide on my insider profile?

If you wish, you can add the name and contact information of a person that the Securities Commissions or the SEDI operator could contact, instead of you, regarding your filings for a particular SEDI issuer. This person should be an individual who has your permission and authority to speak on your behalf regarding your insider reports and filings on SEDI. Alternatively, you could also put additional contact information for yourself if you do not wish to be contacted at your residential address. None of this additional contact information is released to the public. If you wish to provide this optional information, you need to enter the information for each particular issuer for which you are an insider.

4.2.12 What date do I report: an opening balance date or the date I became an insider?

If you have not previously filed an insider report for the issuer, enter the date on which you became an insider of this issuer.

If you have previously filed an insider report for this issuer, enter the opening balance date. This date will be used for all opening balances for this issuer and should be prior to the date of any transactions to be reported for this issuer on SEDI.

4.2.13 What if I have filed a duplicate insider profile by mistake?

Each insider should only have one insider profile on SEDI. However, if you inadvertently filed more than one, please advise your Securities Commission in writing (see Appendix A) who will then take the necessary steps to have the SEDI operator remove the duplicate profiles from SEDI.

4.3 Insider Report

4.3.1 General

4.3.1.1 When do I file my insider report on SEDI?

You need to file your report within 10 calendar days from the date you became an insider if you hold securities of the issuer, and thereafter within 10 calendar days after any change occurs in your holdings of the SEDI issuer. If you are an insider of a SEDI issuer, you need to file your insider reports electronically on SEDI. To file your report on SEDI**,** you or your filing agent first needs to be registered as a SEDI user, have filed your insider profile and obtained an access key.

4.3.1.2 Do I need to file a separate report on SEDI for each province where I have insider reporting obligations?

No, you only need to file once on SEDI to report a transaction or holding in securities of a reporting issuer for which you are an insider, even if the issuer is a reporting issuer in more than one province. SEDI is an electronic filing system for insider reporting in all provinces that have insider reporting requirements. Filing once on SEDI for a particular transaction or holding satisfies all provincial insider reporting requirements. Please note that New Brunswick, Prince Edward Island, Nunavut, Northwest Territories and Yukon do not have any insider reporting requirements.

4.3.1.3 What type of report do I file when I first become an insider of a SEDI issuer and own securities of that issuer?

You need to file an insider report, disclosing all your holdings in the securities of the SEDI issuer. You will initially need to file (create) an insider profile in the system before you can file this insider report. Once your insider profile has been filed, you can then file your insider report, disclosing all your current holdings in the securities of the SEDI issuer. For each particular type of security, the system will ask you to input an opening balance.

For opening balances, see also question 4.3.1.12.

4.3.1.4 What type of report do I file after I have made my initial SEDI report?

You need to file an insider report on SEDI, disclosing your transactions in those securities that have resulted in a change in your beneficial ownership of, or control or direction over, them. You do not need to report closing balances if the balance did not change and you have already reported them. SEDI maintains a record of all these holdings as reported previously.

4.3.1.5 How do I know if my insider report has been successfully filed on SEDI?

SEDI will automatically record the date and time (in the Eastern Time Zone) that your insider report is filed on SEDI. To print the insider report you have filed and certified with the date and time of filing, before clicking 'Accept' to file the report, check the box located at the bottom right of the *Certification* page. You can also verify that your insider report has been filed by logging off and then accessing the public reports. You will need to wait about five minutes for the system to update the information you have just filed before your transactions will appear on the public reports.

4.3.1.6 When do I file insider reports in paper format?

With the implementation of SEDI, you (or an agent on your behalf) need to file insider reports on SEDI, unless you are exempt from insider reporting requirements under provincial securities laws or an order of the relevant Securities Commission. In certain circumstances, however, you may need to file insider reports in paper format rather than on SEDI. These would include:

(1) **Insider of a non-SEDI issuer** - You are an insider of a non-SEDI issuer (i.e., a foreign reporting issuer who has not elected to file disclosure documents on SEDAR) and not otherwise exempt from insider reporting requirements;

(2) **Report of Transfer** - You have transferred securities of the issuer into the name of an agent, nominee or custodian (or third party);

(3) **Report by Registered Holder** - You are a registered holder of voting securities of an issuer and you know the beneficial owner (or in Quebec: the person who controls such securities) is an insider but this insider has not filed a report of the ownership (except where there was a transfer for giving collateral for a genuine debt);

(4) **Management Company Report** - You are a management company, and in certain jurisdictions, you need to file a report where there are certain transactions such as a purchase, sale or loan between a mutual fund and any related person or company;

(5) **General Exemption** - You are granted a discretionary exemption from filing insider reports on SEDI by the relevant securities regulators, upon application under NI 55-102, Part 6. Depending on the circumstances, one of the conditions to that exemption may be that you file insider reports in paper format;

(6) **Unanticipated Technical Difficulties (Temporary)** - You are having unanticipated technical difficulties, i.e., SEDI is unavailable due to technical problems with SEDI, when trying to file your insider report in electronic format;

(7) **No Issuer Profile Supplement (Temporary)** - You are the insider of a SEDI issuer that has not filed its issuer profile supplement and your insider report in SEDI is due.

***

Note that (6) and (7) are only temporary exemptions from filing on SEDI. They are available to insiders. (However, for issuers, please see the exemption in the answer to question 3.1.11.) You need to file the report in paper format using Form 55-102F6. See question 1.7 for further details.

You must file this report within two business days of when the report was due to be filed on SEDI. Once you have resolved the technical difficulties or you become aware that the issuer has filed its issuer profile supplement, as applicable, you must re-file your insider report on SEDI. You should therefore only use the exemptions in (6) and (7) when the circumstances allowing you to use the exemption arise when your report is in fact due. See NI 55-102, part 4.

4.3.1.7 How do I check if my filing was completed?

Your report will be filed only if you completed the process and certified your filing. To check, log off the system and wait at least five minutes. After waiting, go to the SEDI web site and click on “Access public filings” to now view your report as a public record.

4.3.1.8 As an agent can I make a bulk filing for a number of insiders?

No.

4.3.1.9 Do I need to file on SEDI insider trade reports required under federal legislation, such as the *Canada Business Corporations Act*?

SEDI only supports filing under provincial securities legislation. However, there are no insider reporting requirements currently under the *Canada Business Corporations Act*, *Bank Act*, *Cooperative Credit Associations Act*, *Insurance Companies Act* or *Trust and Loan Companies Act.*

4.3.1.10 What do I file if I am an insider of a U.S. issuer that is a registrant with the Securities and Exchange Commission (SEC) and I file insider reports with the SEC?

Generally, you need to file your reports on SEDI if that issuer files disclosure documents on SEDAR.

Insiders of SEC filers that are not SEDAR issuers (and therefore not SEDI issuers) may continue to file the SEC paper forms in the relevant provinces instead of the Canadian paper form.

However, you do not need to file insider reports either in paper or on SEDI, if the issuer is a "U.S. issuer" under National Instrument 71-101 *The Multijurisdictional Disclosure System* that has securities registered under the United States Securities Act of 1934, if you comply with the U.S. federal securities law regarding insider reporting and you file the required reports with the SEC.

4.3.1.11 Are the codes used on SEDI the same as on the old paper form of insider report?

No, the nature of transaction and nature of ownership codes were changed in January 2002. For a current list, see the instruction page of Form 55-102F6 (available on the Securities Commissions' web sites – see Appendix A).

It is important that you use the new codes to avoid any uncertainty as to the nature of your transaction and to avoid misleading the marketplace.

4.3.1.12 I want to report a trade but SEDI keeps asking me for an opening balance for my securities. What do I do?

When you file your first trade report for a particular security (and registered holder, if applicable), the system will always ask for the opening balance before you can file actual transaction details. This is required in order to make the transition from the paper world to the electronic world and to enable SEDI to automatically calculate your holding for that security as of the date of your transaction.

You should enter the total number for the type of security you held as of your opening balance date. (You will have entered this date on your insider profile and it will appear on the opening balance screen as 'Date of transaction'). If you did not hold that type of security as of the date of your last opening balance, you should enter '0' as your opening balance.

If you do not know your opening balance number, call the relevant Securities Commission and ask for a record of that number (see Appendix A).

4.3.1.13 When reporting values and amounts, can I enter commas, decimals or fractions?

Generally, yes. You can use commas, decimals and fractions in the appropriate fields on SEDI. When a decimal is used for amounts in cents (with no dollars), please also enter the '0' before the decimal, i.e., '0.11' for eleven cents. Please round up or down fractional amounts for securities.

4.3.1.14 How do I add more information about the transaction I am reporting?

You can add additional information in the 'Remarks' field. If you do not want the additional information to be public, use the 'Remarks to securities regulatory authority'. To the extent that more space is needed, consider cross-referencing a document already publicly disclosed that has this information, such as a press release or a material change report.

4.3.1.15 What if I have to change information that I already filed in a report on SEDI?

You can change this information by filing on SEDI an amended insider report.

4.3.1.16 Where can I find the form for the insider report in paper format?

You can find Form 55-102F6 in the SEDI online help under the link to the National Instrument. You can also find it on the web sites of the provincial Securities Commissions. See Appendix A.

4.3.1.17 Do I have to report all my holdings in all securities of the SEDI issuer or just the securities in which my beneficial ownership or control over such securities changed?

For the first time you file on SEDI, you must report all holdings in all securities for that issuer. Subsequent to that you only need to report changes in holdings or new holdings.

4.3.1.18 How do I correct information about a trade if I have already filed in paper?

If you need to correct an insider report filed in paper before the re-launch of SEDI, select the Amend paper function on SEDI. You should select Code 99 as the nature of transaction.

4.3.2 Derivatives Reporting

4.3.2.1 What is a derivative?

A derivative is an instrument that derives its value from another security. Two categories of derivatives are used on SEDI:

- "Issuer derivatives" are securities issued by the issuer. Issuer derivatives would include options, warrants, rights and special warrants issued by an issuer. The issuer designates these securities in its issuer profile supplement.

- "Third party derivatives" are securities offered by someone other than the issuer. The price of third party derivatives is based on an underlying interest (such as common shares) issued by the issuer as the underlying security. Third party derivatives include exchange-traded options or over-the-counter options. Please refer to the derivatives section in the online help on SEDI for additional information about derivatives reporting. The insider, not the issuer, must define these securities in the insider profile.

4.3.2.2 What derivatives do I need to report on SEDI?

SEDI does not change existing insider reporting requirements; it only prescribes the content of the reports and the manner in which they must be filed if there is a filing obligation. You need to report any such transactions involving issuer derivatives or third party derivatives. SEDI provides further clarification for the reporting of derivative transactions by its ability to provide specific fields for completion.

4.3.2.3 What is an underlying security and how do I report it?

An underlying security is a security you would acquire if you exercised the rights you acquired when you purchased the first security. For example, if you have options that are exercisable into common shares, the common shares are the "underlying securities". On SEDI, you must report both the initial securities you acquired and their underlying securities.

Example: You were granted options under your company's stock option plan. The options are convertible into common shares on a 1:1 basis when you exercise your options. When you file your first report on SEDI for the options, you will report your holdings in the options (in the category of Issuer derivatives) and then SEDI will prompt you to enter the opening balance for the underlying securities (in this case, common shares). If you held 1,000 options at the time of the last paper filing, you would enter 1000 under 'options' and 1000 under 'underlying securities' (the common shares).

When you then report that you have exercised 500 options, enter 500 under 'Option 2' on the Enter transaction information, i.e., under 'Number of securities or contracts disposed of' and enter 500 under Option 2, i.e., 'Equivalent number of underlying securities disposed of'.

The system will also prompt you with a notice telling you that you must file a separate report if your actual holdings of the underlying securities change as a result of this transaction.

4.3.3 Reporting Transactions

4.3.3.1 How does an issuer that is an insider report transactions under a normal course issuer bid?

Under NI 55-101 an issuer can report acquisitions in connection with normal course issuer bids (as defined in NI 55-101) within 10 days of the end of the month in which the acquisitions occurred, as opposed to within 10 calendar days after the transaction. NI 55-101 requires you to report each acquisition. We recognize that the exemption in NI 55-101 only specifically covers acquisitions. However, we feel that each cancellation of the securities acquired under the normal course issuer bid should also be reported at the same time. Therefore, you would report transactions under a normal course issuer bid within 10 calendar days of the end of the month, in the following manner.

Step 1:

Report *each acquisition* of securities that took place under the normal course issuer bid as a separate transaction, with the appropriate nature of transaction code 38 – Redemption/retraction/cancellation/repurchase.

Step 2:

Report *each cancellation* of securities acquired under the normal course issuer bid as a separate transaction using the relevant nature of transaction code 38 – Redemption/retraction/cancellation/repurchase.

4.3.3.2 How do I report acquisitions under an automatic securities purchase plan (including employee share purchase plans (ESOPs) and dividend reinvestment plans (DRIPs))?

Under NI 55-101, you can report acquisitions of securities under an automatic securities purchase plan such as an ESOP or DRIP for the calendar year within 90 calendar days of the end of the calendar year. If, however, you dispose of or transfer any securities you acquired under the ESOP on DRIP during the year, both the acquisition and disposition/transfer of those securities must be reported within 10 calendar days of the disposition.

You should report acquisitions under your automatic share purchase plan using the nature of transaction code 30 for each transaction.

Alternate Method:

We recognize that the time and effort required to report each transaction in the above manner may outweigh the benefits to the market of having this detailed information. We are considering whether insiders should be permitted under securities law to report on a yearly basis aggregate acquisitions (with an average unit price) of the same securities through their automatic share purchase plans. In the meantime, we will not take any action if reports are filed in the following alternative manner:

Report the total number of securities of the *same type* (e.g. common shares) acquired under all automatic share purchase plans for the calendar year as a single transaction using the nature of transaction code 30. Use December 31 of the relevant year as the date of the transaction, and provide an average unit price (if available). Alternatively, you can also report the total number of securities acquired under a particular plan identifying the plan in the "Remarks" field.

Do not aggregate different types of securities under a single transaction. Do not send plan statements to the Securities Commissions.

4.3.3.3 If I acquire securities through an ESOP or a DRIP, do I hold these securities directly or indirectly (do I indicate the "registered owner" on my report)?

Whether or not you should indicate the ESOP or DRIP as the "registered owner" depends on whether the ESOP or DRIP is the "beneficial owner" of, or has control over, the securities. The answer may be different depending on the terms of the particular plan. However, in most cases, securities issued under these plans are held directly by the insider. You should speak to your employer to find out whether the ESOP or DRIP is the registered owner, or whether you hold these securities directly.

4.3.3.4 How do I report holdings of securities under an RRSP?

You should report that you hold these securities *indirectly* and indicate that the "registered owner" is the RRSP.

4.3.3.5 How do I report stock-based compensation (other than options) such as deferred share units (DSUs), restricted share awards (RSAs), and stock appreciation rights (SARs)?

One of the most common forms of stock-based compensation is granting options that, upon exercise, are converted into the issuer's common shares. However, there are other less common types of stock-based compensation. For example, RSAs and DSUs entitle employees to an award of the issuer's common shares after a specified period. Other forms of stock-based compensation such as SARs entitle the employee to future cash payments based on the value or growth in value of the issuer's common shares over a specified period.

- *RSAs and DSUs*

Step 1 – Grant of RSAs or DSUs:

Report the number of RSAs or DSUs awarded and report the equivalent amount of underlying common shares. Use nature code 56 – Grant of rights. On SEDI, report the underlying common shares in the "Equivalent number of underlying securities" box. In paper, report this information in the "Remarks" box. In SEDI, issuers should have created a security designation for the RSAs or DSUs in the issuer profile supplement, and selected the "Issuer derivative" category.

Step 2 – Vesting and distribution of underlying common shares:

When the RSAs or DSUs vest, report an acquisition of the relevant number of underlying common shares as one transaction. You will also need to report a disposition of the corresponding number of the RSAs or DSUs, using the same code, as another transaction.

SARs

If you conclude that your SAR is a security, report the transaction as follows:

Step 1 – Grant of SAR

Report the number of SARs awarded, and the exercise price, and report the equivalent amount of underlying common shares. Use nature of transaction code 56 – Grant of Rights. Issuers should have created a security designation for the SARs in the issuer profile supplement, and selected the "Issuer derivative" category.

Step 2 – Vesting and distribution of cash

Report a disposition of the relevant number of SARs.

4.3.3.6 How do I report changes to my holdings as a result of share consolidations/splits?

Example: a 4- for-1 consolidation of 100 common shares

If you held 100 common shares that were consolidated on a 4:1 basis (so that you now hold 25 common shares), you report the change as follows. Calculate the new number of common shares you hold after the consolidation – in this case, 25 common shares. Subtract your new holdings from what you held before the stock consolidation; in this case, 100 – 25, and then report the difference – i.e. 75 common shares, using nature of transaction code 37- Stock split or consolidation.

Example: a 4-for-1 split of 100 common shares

If you held 100 common shares that were split on a 4:1 basis (so that you now hold 400 common shares), you report the change as follows. Calculate the new number of common shares you hold after the split – in this case, 400 common shares. Subtract from this number the number of common shares you held before the split: 400 – 100, and report the difference – i.e. 300 common shares as an acquisition using nature of transaction code 37**.**

4.3.3.7 How do I report an exercise of options?

There are the following two steps to report the exercise of an option:

Step 1) Report the number of options being exercised as a disposition. Use nature code 51 to show the disposition. If you're not sure of the number of underlying shares, you can ask the insider affairs contact person found in the issuer profile supplement of the company. Enter the date of the transaction, the exercise price, etc. and then go through the steps required to certify and file your report.

Step 2) Show an acquisition of the underlying security (e.g., common shares) equal to the appropriate number of options exercised. Use nature of transaction code 51 to report the acquisition of the common shares.

5. PUBLIC ACCESS

Any member of the public can view information filed on SEDI by clicking 'Access public filings' on the Welcome to SEDI page at the SEDI web site (www.sedi.ca). The information is available in either French or English. Four reports (described below), including the weekly summary report of insider transactions, are available to you to use in accordance with the Terms of Use - Public. You can download the reports to your computer (PDF format only) and you can print them.

5.1 Can I search for information filed on SEDI?

Yes. SEDI provides extensive search capabilities for public users. You can either download a weekly report, capturing all trade reports filed for a Friday through Thursday period, or search the database using an extensive set of parameters such as insider's name, issuer, date ranges or types of securities.

5.2 What reports can I view on SEDI?

You can view the following reports:

- Weekly summary – provides a summary of all insider trade reports filed after Thursday at 4 p.m. Eastern Time and before Thursday at 4 p.m. of the following week (for each of the three preceding weeks only)

- Insider transaction detail – provides a summary of all individual transactions filed by insiders, based on the search criteria used

- Insider information by issuer – provides a list of all registered insiders by each SEDI issuer, based on the search criteria used

- Issuer event history – provides a list of all issuer events reported by an issuer.

Except for the Weekly summary report which displays only in PDF format, the above reports are displayed online in HTML format and can also be downloaded in PDF format. You can view these reports in a Web browser such as Internet Explorer.

5.3 Do I need to be registered on SEDI to view these reports?

No, you do not need to be registered on SEDI. At the web site (**www.sedi.ca)** on the *Welcome to SEDI* page, click 'Access public filings'.

5.4 Can I view insider reports filed on paper on SEDI before SEDI was launched?

No. The database of insider trade reports on SEDI only includes reports filed beginning on the date they are required to be filed on SEDI. This includes amendments to reports filed in paper before then. It will become a comprehensive database that will accumulate data on all trades from that date forward.

5.5 What weekly summaries can I view?

You can view one of three weekly summary reports (1 or 2 or 3 weeks back only) by clicking on the week requested. For insider trade reports older than three weeks, you will need to do a specific search using the insider transaction detail report.

5.6 Will the weekly summary include reports only from one province or reports from all provinces?

The weekly summary reports will include consolidated reports from all provinces with insider reporting requirements. However, you can search the database for an insider transaction detail report using certain parameters so that such report will include specific provinces, for example, only Ontario reports. To obtain the weekly summary of reports filed for a specific province, for certain provinces you can go to the Securities Commission web site for that province.

5.7 Will SEDI list the number of issued and outstanding securities for each issuer?

No, that information will not be available on SEDI.

5.8 Can I subscribe to receive information on filings by certain insiders, or by insiders of particular companies or other information filed on SEDI?

These services are not part of SEDI. However, bulk and/or real-time SEDI data feeds may be available for resale. Please contact CDS.

5.9 Where can I look at insider reports filed in paper format?

You can look at these reports at the offices of the relevant Securities Commission during business hours or, to see a summary of insider transactions, on their respective web sites.

APPENDIX A
SECURITIES COMMISSIONS AND CDS INC.: CONTACT AND WEB SITE INFORMATION

Canadian Securities Administrators (CSA)
web site: www.csa-acvm.ca

Securities Commissions

Alberta Securities Commission
4th Floor, 300-5th Avenue S.W.
Calgary, AB, Canada
T2P 3C4
Attention: Compliance Assistant, Insider Reporting
Telephone: (403) 297-2489
Facsimile: (403) 297-6156
E-mail: Inquiry@seccom.ab.ca
Web site: www.albertasecurities.com

British Columbia Securities Commission
P.O. Box 10142 Pacific Centre
701 West Georgia Street
Vancouver, BC Canada
V7Y 1L2
Attention: Supervisor, Insider Reporting
Telephone: (604) 899-6500 or (800) 373-6393 (in BC)
Facsimile: (604) 899-6506 (for correspondence)
(604) 899-6550 (for filing insider reports)
E-mail: inquiries@bcsc.bc.ca
Web site: www.bcsc.bc.ca

Commission des valeurs mobilières du Québec
Stock Exchange Tower
P.O. Box 246, 22nd Floor
800 Victoria Square
Montréal, PQ, Canada
H4Z 1G3
Attention: Public Relations Division
Telephone: (514) 940-2150 or (800) 361-5072 (in Quebec)
Facsimile:
Public Relations Division: (514) 864-7854
For insider reports:
(514) 873-3120
E-mail: courrier@cvmq.com
Web site: www.cvmq.com

Manitoba Securities Commission
1130-405 Broadway
Winnipeg, MB, Canada
R3C 3L6
Attention: Senior Analyst
Telephone: (204) 945-2548 or (800) 655-5244 (in Manitoba)
Facsimile: (204) 945-0330
Web site: www.msc.gov.mb.ca

Nova Scotia Securities Commission
2nd Floor, Joseph Howe Building
1690 Hollis Street
P.O. Box 458
Halifax, NS, Canada
B3J 3J9
Attention: Corporate Finance
Telephone: (902) 424-7768
Facsimile: (902) 424-4625

Web site: www.gov.ns.ca/nssc/

Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, ON, Canada
M5H 3S8
Attention: Review Officer, Insider Reporting
Telephone: (416) 593-8314
1-877-785-1555 (toll free)
Facsimile for filing insider reports: (416) 593-3666
E-mail: inquiries@osc.gov.on.ca
Web site: www.osc.gov.on.ca

Saskatchewan Financial Services Commission
Securities Division
6th Floor, 1919 Saskatchewan Dr.
Regina, SK, Canada
S4P 3V7
Attention: Deputy Director, Registration
Telephone: (306) 787-5842
Facsimile: (306) 787-5899
Web site: www.sfsc.gov.sk.ca

Securities Commission of Newfoundland and Labrador
P.O. Box 8700
2nd Floor, West Block
Confederation Building
St. John's, NL, Canada
A1B 4J6
Attention: Director of Securities
Telephone: (709) 729-4189
Facsimile: (709) 729-6187
Web site: www.gov.nf.ca/gsl/cca/s/

SEDI Operator (CDS INC.)

CDS INC.
SEDI Administrator
85 Richmond Street West
Toronto, ON, Canada
M5H 2C9
Telephone: 1-800-219-5381
Facsimile: 1-866-729-8011

April 25, 2003.

1.1.4 CSA Notice 81-404 - Request for Comment on Joint Forum Guidelines for Capital Accumulation Plans - Proposed Guidelines for Capital Accumulation Plans prepared by the Joint Forum of Financial Market Regulators

CSA NOTICE 81-404 - REQUEST FOR COMMENT ON JOINT FORUM GUIDELINES FOR CAPITAL ACCUMULATION PLANS

PROPOSED GUIDELINES FOR CAPITAL ACCUMULATION PLANS PREPARED BY THE JOINT FORUM OF FINANCIAL MARKET REGULATORS

As a member of the Canadian Securities Administrators and the Joint Forum of Financial Market Regulators, the Ontario Securities Commission is publishing for comment proposed *Guidelines for Capital Accumulation Plans* and a proposed strategy for implementation of the guidelines in Chapter 6 of this Bulletin.

1.1.5 Notice of Minister of Finance Approval of Amendments to National Instrument 55-102 and Related Forms

NOTICE OF MINISTER OF FINANCE APPROVAL OF AMENDMENTS TO NATIONAL INSTRUMENT 55-102 AND RELATED FORMS

On April 14, 2003, the Minister of Finance approved a rule that amends National Instrument 55-102 *System for Electronic Disclosure by Insiders (SEDI)* and related Forms 55-102F1, 55-102F2, 55-102F3 and 55-102F6 (collectively, the Amendments). The Amendments come into force in Ontario on April 29, 2003, and in other applicable jurisdictions in Canada, on a later date or dates.

The Amendments are published in Chapter 5 of the Bulletin. Materials related to the Amendments were previously published in the Bulletin on February 21, 2003 at (2003) 26 OSCB 1577.

SEDI is the insider trade reporting system to be available over the Internet at www.sedi.ca beginning May 5, 2003. It replaces paper-based reporting of insider trading data for insiders of most issuers. Please see CSA Staff Notice 55-309 *System for Electronic Disclosure by Insiders (SEDI) and Other Insider Reporting Matters*, dated April 11, 2003, for details about the SEDI launch.

1.1.6 Assignment of Certain Powers and Duties of the OSC - Amendment of Assignment

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

AND

IN THE MATTER OF
THE ASSIGNMENT OF CERTAIN POWERS AND DUTIES OF
THE ONTARIO SECURITIES COMMISSION

AMENDMENT OF ASSIGNMENT
(Subsection 6(3))

WHEREAS:

1. On April 12, 1999, pursuant to subsection 6(3) of the Act, the Ontario Securities Commission (the Commission) issued an assignment (the April Assignment) assigning certain of its powers and duties under the Act to each "Director" as that term is defined in subsection 1(1) of the Act, acting individually;

2. On September 7, 1999, February 15, 2000, January 23, 2001, April 27, 2001, and October 3, 2001, pursuant to subsection 6(3) of the Act, the Commission amended the April Assignment (the April Assignment so amended being referred to as the Assignment);

3. Paragraph 2(h) of the Assignment provides that:

   Pursuant to subsection 6(3) of the Act, the Commission assigns to each Director, acting individually, the powers and duties vested in or imposed upon the Commission by:

   (h) section 83 of the Act;

4. The Commission wishes to limit the assignment to the Director of the powers and duties vested in or imposed upon the Commission by section 83 of the Act.

NOW THEREFORE the Assignment is amended by deleting clause (h) of paragraph 2 and substituting therefor the following:

(h) section 83 of the Act but only in respect of a reporting issuer:

   (i) whose outstanding securities, including debt securities, are beneficially owned, directly or indirectly, by less than 15 security holders in Ontario and less than 51 security holders in Canada;

   (ii) whose securities are not traded on a marketplace as defined in National Instrument 21-101;

   (iii) that is not in default of any of its obligations as a reporting issuer; and

   (iv) that will not be a reporting issuer or the equivalent in any jurisdiction in Canada immediately following the Director granting the relief requested.

April 15, 2003.

"Paul Moore" "Howard I. Wetston"

1.1.7 OSC Staff Notice 12-703 – Preferred Format of Applications to the Director under Section 83 of the Securities Act (Ontario)

ONTARIO SECURITIES COMMISSION STAFF NOTICE 12-703 – PREFERRED FORMAT OF APPLICATIONS TO THE DIRECTOR UNDER SECTION 83 OF THE *SECURITIES ACT* (ONTARIO)

1. Background

On April 15, 2003 the Commission amended the Assignment by Commission Pursuant to Section 6 of the Act of Certain of Commission's Powers and Duties, as amended (the Assignment). The Commission limited the assignment of its powers and duties to the Director (as defined under section 1(1) of the Act) under section 83 of the Act by revoking clause (h) of paragraph 2 of the Assignment and substituting the following:

> [Pursuant to subsection 6(3) of the Act, the Commission assigns to each Director, acting individually, the powers and duties vested in or imposed upon the Commission by:]
>
> (h) section 83 of the Act but only in respect of a reporting issuer:
>
> (i) whose outstanding securities, including debt securities, are beneficially owned, directly or indirectly, by less than 15 security holders in Ontario and less than 51 security holders in Canada;
>
> (ii) whose securities are not traded on a marketplace as defined in National Instrument 21-101;
>
> (iii) that is not in default of any of its obligations as a reporting issuer; and
>
> (iv) that will not be a reporting issuer or the equivalent in any jurisdiction in Canada immediately following the Director granting the relief requested.

The Assignment, as amended, gives the Director the power to order that a reporting issuer ceases to be a reporting issuer in these circumstances. The Director does not have the power to grant relief to a reporting issuer that does not meet the requirements set out in clause (h) of paragraph 2 of the Assignment: Only the Commission may grant relief to such a reporting issuer.

2. Objective

Consistent with the terms of clause (h) of paragraph 2 of the Assignment, we are setting out the preferred format of applications under section 83 to the Director. We believe the preferred format will simplify the process for a reporting issuer submitting such an application. It may be inappropriate for a reporting issuer that does not meet the requirements of clause (h) of paragraph 2 of the Assignment, to submit an application using the preferred format.

3. Preferred Format of Applications

A reporting issuer seeking relief from the Director under section 83 may request relief by:

(a) submitting a letter in duplicate prepared by or on behalf of the reporting issuer that:

(i) indicates that the reporting issuer is requesting relief under section 83;

(ii) references this staff notice; and

(iii) includes representations by the reporting issuer that it meets each of the criteria referred to in clause (h) of paragraph 2 of the Assignment; and

(b) complying with parts A, B, and C, and subpart D(e) of OSC Policy 2.1.

An example of an Application Letter and of an Order Granting the Relief is attached as Schedule 1. Notwithstanding the format of the application described, we may request that the reporting issuer provide additional information in support of the application.

Schedule 1

Example of an Application Letter

*

Dear *

*

Re: *(the Applicant) – Application to Cease to be a Reporting Issuer under Section 83 of the *Securities Act* (Ontario)

We are applying to the Ontario Securities Commission on behalf of the Applicant for an order under section 83 of the Act and consistent with Ontario Securities Commission Staff Notice 12-703, that the Applicant is deemed to have ceased to be a reporting issuer.

The Applicant represents that:

- The outstanding securities of the Applicant, including debt securities are beneficially owned, directly or indirectly, by less than 15 security holders in Ontario and less than 51 security holders in Canada;
- No securities of the Applicant are traded on a marketplace as defined in National Instrument 21-101;
- The Applicant is not in default of any of its obligations under the Act as a reporting issuer; and
- The Applicant will not be a reporting issuer or the equivalent in any jurisdiction in Canada immediately following the Director granting the relief requested.

Dated this ___ day of _____, in the City of _____ in the Province of Ontario.

Applicant name *
Signature of the person who has signing authority

Example of an Order Granting the Relief

*

Dear *

*

Re: *(the Applicant) – Application to Cease to be a Reporting Issuer under Section 83 of the *Securities Act* (Ontario)

The Applicant has applied to the Ontario Securities Commission for an order under section 83 of the Act to be deemed to have ceased to be a reporting issuer.

As the Applicant has represented to the Commission that:

- The outstanding securities of the Applicant, including debt securities are beneficially owned, directly or indirectly, by less than 15 security holders in Ontario and less than 51 security holders in Canada;
- No securities of the Applicant are traded on a marketplace as defined in National Instrument 21-101;
- The Applicant is not in default of any of its obligations under the Act as a reporting issuer; and
- The Applicant will not be a reporting issuer or the equivalent in any jurisdiction in Canada immediately following the Director granting the relief requested.

The Director is satisfied that it would not be prejudicial to the public interest to grant the requested relief and orders that the Applicant is deemed to have ceased to be a reporting issuer.

_____
*
Director

1.2 Notices of Hearing

1.2.1 Patrick Fraser Kenyon Pierrepont Lett et al. - Amended Statement of Allegations

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

AND

IN THE MATTER OF
PATRICK FRASER KENYON PIERREPONT LETT,
MILEHOUSE INVESTMENT MANAGEMENT LIMITED,
PIERREPONT TRADING INC., BMO NESBITT BURNS INC.,
JOHN STEVEN HAWKYARD AND JOHN CRAIG DUNN

AMENDED
STATEMENT OF ALLEGATIONS
OF THE ONTARIO SECURITIES COMMISSION

Staff of the Ontario Securities Commission make the following allegations:

I. THE RESPONDENTS

1. Patrick Fraser Kenyon Pierrepont Lett is an individual residing in Ontario and is, and was, between January 1996 and October 1999 (the "material period"), the President, a Director and the directing mind of Milehouse Investment Management Limited and Pierrepont Trading Inc. (collectively referred to as the "Companies").

2. Each of the Companies is incorporated under the laws of Ontario. Neither of the Companies has been registered in any capacity under the Securities Act.

3. Lett was sanctioned by the Commission in June of 1993. Lett was named as a respondent *In the Matter of Gordon Capital Corporation*. Lett exposed Gordon Capital to risk and participated in transactions which placed Gordon Capital in breach of Ontario securities law and the By-Law's of the Toronto Stock Exchange. In addition, Lett misled Staff of the Commission before approaching Staff to cooperate in its investigation. The Commission ordered that Lett's registration be suspended for a six month period and that Lett complete a number of securities-related courses as a condition of future registration.

4. In April of 1998, the Alberta Securities Commission issued an Order to Freeze Property in the Milehouse account at Nesbitt in an attempt to satisfy an outstanding Settlement Agreement it had entered into with Lenzburg Capital Corporation, Lenzburg International Ltd. and William Lenz (the "Respondents"). The Respondents had deposited $4,500,000 into the Milehouse account. On April 22, 1998, the Commission issued a similar direction. Eventually, Lett transferred out all the funds in the Milehouse account, except those that had been deposited by the Respondents, in accordance with the freeze orders.

5. The Respondents solicited investors to provide funds for investments that constituted trades which were distributions. Their actions breached the Alberta Securities Act and were contrary to the public interest as the Respondents were not registered and a preliminary prospectus and prospectus were not filed with the ASC as required. According to the Settlement Agreement, the Respondents were to return $1,850,000 to the investors by August 30, 1997. The Order to Freeze Property was issued because the money was not returned.

6. Lett is currently not registered under the Act and was not registered during the material period. He was previously registered as follows:

   i) from 1989 to 1995, with Trafalgar Capital Management Inc., which was registered as an Adviser in the categories of Investment Counsel and Portfolio Manager. Lett was registered as an Investment Counsel and Portfolio Manager, and, during the same time period, approved as a Director;

   ii) in January 1991, approved as a Director of Arbitrage Risk Management Ltd., a Limited Market Dealer;

iii) Lett's registrations were suspended in June 1993 for a six month period pursuant to the Settlement Agreement in *Gordon Capital*;

iv) Lett's registration as a Director and Investment Counsel and Portfolio Manager with Trafalgar was suspended on June 15, 1995 due to involuntary non-renewal of the registration of Trafalgar; and,

v) in June 1994, under the *Commodity Futures Act* R.S.O. 1990, chapter C.20, as a Director and Counselling Officer with Trafalgar, which was registered as an Adviser in the category of Commodity Trading Manager. Lett's registration was suspended on June 15, 1995 due to the involuntary non-renewal of the registration of Trafalgar.

7. Lett has never been registered as a limited market dealer.

8. BMO Nesbitt Burns Inc. is registered as a Broker/Investment Dealer under the Act.

9. John Craig Dunn was registered under the Act from October 1994 to August 2002 as a trading officer with Nesbitt at its branch located at 1 Robert Speck Parkway, Mississauga, Ontario. From July 1986 to February 2002, Dunn was the Branch Manager of the Nesbitt branch located at 1 Robert Speck Parkway, Mississauga, Ontario.

10. John Steven Hawkyard was registered under the Act from October 1989 to April 1997 as a salesperson of Bank of Montreal Investment Management Limited, a dealer in the category of Mutual Fund Dealer. From March 1996 to April 1997, Hawkyard was the Manager of the Bank of Montreal - Private Banking Services Branch located at 1 Robert Speck Parkway, Mississauga, Ontario.

11. From November 1997 to August 2002, Hawkyard was registered as a salesperson of Nesbitt working out of the Nesbitt branch located at 1 Robert Speck Parkway, Mississauga, Ontario, the branch which was managed by Dunn.

II. OVERVIEW OF STAFF'S ALLEGATIONS

12. In engaging in the conduct described below, the respondents have acted contrary to Ontario securities law and the public interest.

13. As set out paragraphs 17-23 below, Lett and his Companies traded in securities without being registered, contrary to section 25(1)(a) of the Act. Lett and his Companies acted as "market intermediaries" by engaging or holding themselves out as engaging in the business of trading in securities.

14. As set out paragraphs 24-27 below, Dunn provided or caused others to provide Lett with letters that contained inaccurate representations (referred to as the "Proof of Funds Letters") regarding the accounts of Milehouse and Pierrepont at Nesbitt (referred to collectively as the "Lett Accounts"). Dunn's actions, which included preparing and signing such letters and causing others to prepare and sign these letters, were contrary to the pubic interest.

15. Hawkyard, while employed at the Bank of Montreal and later at Nesbitt, under the direction of Dunn, prepared and signed Proof of Funds Letters and caused others to prepare and sign these letters, contrary to the public interest.

16. As set out paragraph 28 below, Nesbitt failed to adequately supervise the Lett Accounts and Dunn's actions in relation to the Lett Accounts, contrary to the public interest and contrary to sections 1.2, 1.5(a) and 3.1 of Ontario Securities Commission Rule 31-505.

III. UNREGISTERED TRADING

17. In late 1995, Lett opened accounts in the name of Milehouse at the Mississauga Branch and at the Nesbitt branch located at 1 First Canadian Place, Toronto, Ontario. Lett also opened an account in the name of Pierrepont Trading Inc. (collectively, these accounts will be referred to as the "Lett Accounts"). Dunn was the Investment Advisor responsible for the Milehouse and Pierrepont accounts at the Mississauga Branch.

18. Seven investors (the "Investors") deposited approximately US $21 million into the Lett Accounts at Nesbitt or the Milehouse account at the Bank of Montreal for the purpose of investing in an intended trading program.

19. The Investors were as follows:

INVESTOR	DESCRIPTION	AMOUNT INVESTED
1	Constantin Nasses - A resident of Monaco who was charged with insider trading in the United States in 1986 but has failed to respond to the charges.	US $8,000,000
2	V.A. Velarde - A resident of Virginia who, in June of 1999, was charged by the Securities and Exchange Commission with aiding and abetting two lawyers in a prime bank scheme. This individual settled the charges.	US $5,200,000
3	Lenzburg Capital Corp. - An Alberta corporation who was later subject to a freeze order, obtained by the Alberta Securities Commission for failing to return funds to investors, as required pursuant to the terms set out in a Settlement Agreement.	US $4,500,000
4	Greater Ministries International Inc. ("GMI") - A Florida corporation purportedly involved in evangelical missionary work. In 2001, the founder of this organization was convicted of fraud and conspiracy.	US $1,275,000
5	A resident of New York.	US $1,000,000
6	A resident of New York.	US $1,000,000
7	A resident of Florida.	US $ 250,000

20. Between January 1996 and October 1999, Dunn provided and caused others to provide Lett with approximately 18 Proof of Funds Letters regarding the accounts of Milehouse and Pierrepont at Nesbitt. Dunn knew that the Proof of Funds Letters would be provided to third parties regarding the status of the Lett Accounts.

21. The Proof of Fund Letters were provided to a third party and were a necessary component of the intended trading "program". The Program has characteristics of a prime bank instrument scheme and, as such, has no basis in reality. This Program was to include the purchase on margin of a bank guarantee or debenture, issued by a foreign bank, through the Lett Accounts at Nesbitt. The proceeds from the purchase were to be directed to the third party who was represented as having access to a high yield trading program. The high yield trading program was represented as involving the purchase and sale of medium term bank notes. The bank notes were to be purchased at a substantial discount based upon a commitment issued by the United States Treasury Department. Substantial profits were to be earned because of the ability of the commitment holder to purchase at a discount. A portion of the profits on the subsequent sale of the bank notes were represented to be used for projects associated with the United States government (ie an American foreign policy initiative) or for humanitarian purposes. The balance of the profits would be left in the hands of the commitment holder. Profits in the range of 100% to 480% would allegedly be earned by the commitment holder which would be shared with Lett and the parties who would have provided funds in the first instance.

22. Lett did not purchase a bank guarantee or debenture and was never able to access the high yield trading program. However, Lett, Milehouse and Pierrepont acted in furtherance of a trade by accepting the funds from the Investors, attempting to forward the funds to purchase the bank guarantee or debenture, (the proceeds would be used to access the high yield trading program), and by repeatedly providing the Proof of Funds letters to third parties.

23. During the material period, Milehouse and Pierrepont had no discernible business activity other than its involvement in the intended trading program.

IV. PROOF OF FUNDS LETTERS – INACCURATE REPRESENTATIONS

24. During the material period, Dunn prepared and signed Proof of Fund Letters and caused others to prepare and sign such letters.

25. During the material period, Hawkyard, while employed at the Bank of Montreal and later at Nesbitt, under the direction of Dunn, prepared and signed Proof of Funds Letters and caused others to prepare and sign these letters. Some of the Proof of Funds Letters were written on Bank of Montreal letterhead and attempted to confirm the availability of funds in the Lett Accounts at Nesbitt.

26. The Proof of Funds Letters were prepared at the request of Lett. At times, Lett provided draft wording for these letters.

27. The Proof of Funds Letters contained the following inaccurate representations regarding the Lett Accounts:

	INACCURATE REPRESENTATION	FACT
i)	The letters indicated that, as of a certain date, a stated amount of money (ranging from US $10 million to US $100 million) was in the Lett Accounts or was available in the Lett Accounts.	In all cases, the stated amount of money was not in the Lett Accounts.
ii)	Some of the letters indicated that, for a period of time, the stated amount of money would be "held" in the Lett Accounts.	Nesbitt did not have a mechanism to place a "hold" on funds in the Lett Accounts.
iii)	Some of the letters attested to the legitimacy of the funds; for example, the letters stated that the funds were "clear", "clean" "of non-criminal origin", "unencumbered" or "legitimately earned or obtained".	Neither Nesbitt, Dunn nor Hawkyard attempted to verify the source of the funds that were deposited into the Lett Accounts.

V. FAILURE TO SUPERVISE

28. Nesbitt failed to adequately supervise the Lett Accounts and Dunn's actions in relation to the Lett Accounts, despite numerous indications that, at a minimum, close supervision was required:

i. Nesbitt was aware that, in 1993, Lett had been the subject of an Ontario Securities Commission proceeding and was sanctioned.

ii. In early 1996, the Investment Adviser for the First Canadian Place account signed a letter drafted by Lett in which Lett was seeking to present an inflated impression of the value of assets held in his account. Nesbitt's Branch Manager and Retail Compliance Officer became aware of this occurrence at the time and the Investment Adviser was instructed never to author such a letter again.

iii. In 1996, a member of the Investigation Department of the Toronto Stock Exchange advised a compliance officer at Nesbitt that he had learned of an inquiry in relation to Lett and advised Nesbitt that it had shut down an operation that involved Lett and was dealing in prime bank notes.

iv. On April 16, 1998, the Alberta Securities Commission issued an Order to Freeze Property in the Milehouse account at the Mississauga Branch with respect to the deposit of funds by Lenzburg Capital Corporation in the Milehouse account. On May 22, 1998, the Ontario Securities Commission issued a similar direction.

v. In May 1998, Nesbitt became aware that Lett was depositing funds from certain of the Investors into the Milehouse account.

vi. In May 1998, Nesbitt became aware that Dunn, in March 1998, had agreed in writing to terms and conditions with respect to funds deposited by third parties into the Milehouse account. One of the terms referred to funds remaining credited to the Milehouse account at Nesbitt for 1 year. After becoming aware of these terms, Nesbitt permitted the bulk of the funds in the Lett Accounts, other than the Lenzburg funds, to be transferred out.

vii. In May 1998, Dunn advised a Senior Compliance Officer that he signed the letter referred to in subsection vi. above, simply because he was asked to do so by Lett.

viii. In May 1998, a Senior Compliance Officer recommended that the Lett accounts be closed.

ix. In May 1998, Nesbitt placed restrictions on Dunn and his actions in relation to the Lett Accounts. Dunn was told not to sign any letters unless the letter was approved by Compliance or the legal department and was told that Lett could not deposit funds into the Milehouse account unless Nesbitt was satisfied that the funds belonged to Milehouse or Lett. In spite of the restrictions, Dunn continued to prepare, sign and caused others to sign Proof of Funds Letters. The restrictions were ineffectual because Nesbitt relied on Dunn to provide information.

29. Staff reserves the right to make such further and other allegations as the Commission may permit.

September 18, 2002, as amended on April 15, 2003.

1.3 News Releases

1.3.1 Staff Amends Statement of Allegations in Respect of Patrick Fraser Kenyon Pierrepont Lett, Milehouse Investment Management Limited, Pierrepont Trading Inc., BMO Nesbitt Burns Inc., John Steven Hawkyard and John Craig Dunn

FOR IMMEDIATE RELEASE
April 15, 2003

STAFF AMENDS STATEMENT OF ALLEGATIONS IN RESPECT OF PATRICK FRASER KENYON PIERREPONT LETT, MILEHOUSE INVESTMENT MANAGEMENT LIMITED, PIERREPONT TRADING INC., BMO NESBITT BURNS INC., JOHN STEVEN HAWKYARD AND JOHN CRAIG DUNN

TORONTO – On April 15, 2003, Staff of the Ontario Securities Commission amended the Statement of Allegations with respect to this matter.

The hearing is scheduled to commence on Monday, June 16, 2003 at 10:00 a.m. in the Large Hearing Room, 17th Floor, 20 Queen Street West, Toronto.

A copy of the Amended Statement of Allegations is available at **www.osc.gov.ca** or from the Commission, 20 Queen Street West, 19th Floor, Toronto, Ontario.

For Media Inquiries: Eric Pelletier
Manager, Media Relations
416-595-8913

For Investor Inquiries: OSC Contact Centre
416-593-8314
1-877-785-1555 (Toll Free)

1.3.2 OSC to Present Public Seminar on Choosing Your Financial Advisers

FOR IMMEDIATE RELEASE
April 17, 2003

ONTARIO SECURITIES COMMISSION TO PRESENT PUBLIC SEMINAR ON CHOOSING YOUR FINANCIAL ADVISERS

TORONTO – Whether in the formative years or nearing retirement, it is critical that investors are well versed in how to manage and protect their money. For many investors, finding a trusted financial professional is a first step in this process. As part of Investor Education Month, the Ontario Securities Commission is presenting a public seminar titled "Choosing Your Financial Advisers."

Perry Quinton, Manager of Investor Communications, will speak about the role of the OSC as a securities regulator, the different types of financial advisers, and the issues investors should consider when selecting an adviser.

When: Tuesday April 22, 2003 - 7:00 to 8:00 pm

Where: Barrie Public Library
60 Worsley Street
Barrie, Ontario
L4M 1L6

The seminar is part of the Barrie Public Library's Business Program. Registration is free and Investor Education kits will be distributed.

To register, call the Business Librarian at (705) 728-1010 ext: 7014.

For Media Inquiries: Perry Quinton
Manager, Investor Communications
(416) 593-2348

For Investor Inquiries: OSC Contact Centre
416-593-8314
1-877-785-1555 (Toll Free)

1.3.3 New Financings More than Triple to $21 Billion, Benefiting Businesses in Ontario - One Step Forward: A Study of the Economic Impact of OSC Rule 45-501 Exempt Distributions

FOR IMMEDIATE RELEASE
April 21, 2003

NEW FINANCINGS MORE THAN TRIPLE TO $21 BILLION, BENEFITING BUSINESSES IN ONTARIO

TORONTO – Reforms to the regulations governing how enterprises raise capital contributed to a tripling of investments, concludes an Ontario Securities Commission report. By focussing investment eligibility on the investors' means rather than on a minimum threshold value for transactions, Ontario saw a jump of thousands more investments in 2002 over the previous year, pumping an additional $15 billion into enterprises in Ontario.

"In a year where the overall capital market contracted, especially regarding new issues in high-risk areas, investments in prospectus-exempt firms in Ontario jumped from levels seen in the boom years of the late 1990s," said OSC Chair David Brown. The report concluded that transactions grew from an annual average of 1,287 transactions from 1995 to 1998, with an annual average value of $6.2 billion, to 3,528 transactions worth $21 billion in an 11-month period in 2001-2002. "Our policy change unlocked a significant pool of capital and directed it to businesses in need of new funding sources," said Brown.

A separate OSC-commissioned study showed that of the total financings, $2.6 billion went to small and medium enterprises in 2002, generating 16,500 jobs in 2002, and forecast to generate a further 19,400 new jobs in 2003 when the lagged impact on employment gains traction. As well, the report suggests an increase of 0.56% in Ontario's GDP for 2002, and a further 0.5% GDP growth for 2003. "These investments allow small and medium firms in Ontario to prosper, create jobs and fuel economic growth for the province," added Brown.

The goal of the new rule was to have a positive impact on investments to the province's small and medium enterprises, noted Brown. The magnitude of the results in the OSC study undeniably show that the number and value of these transactions grew dramatically following the rule implementation. In particular, the study reports:

- Total trading increased;
- the average size of transactions increased;
- more small and large transactions are noted;
- almost half of the transactions are valued below the previous minimum threshold of $150,000.

Under the new policy, accredited investors include accredited financial institutions and loan or trust corporations, insurance companies, governments, registered charities, securities advisers and dealers. As well, individuals with net financial assets exceeding $1 million in value, or with a net income of more than $200,000 for the two previous years and prospects for similar income in the current year, can be accredited investors.

The report notes that while it is possible that other factors contributed to the growth in this market, given the overall contraction in capital markets' issuance, particularly in higher risk areas, the rule change was likely the most significant contributor to performance.

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Ontario

One Step Forward

A Study of the Economic Impact of
OSC Rule 45-501 Exempt Distributions

Report to the Honourable Janet Ecker, Minister of Finance

Ontario Securities Commission

March, 2003

Impact Study	OSC Rule 45-501 Exempt Distributions
Sponsor	Ontario Securities Commission – Corporate Finance
From	Office of the Chief Economist
Issue	The Task Force on Small Business Financing (1994) recommended a change in exempt market regulation from a minimum investment to an investor approval test. The provincial government's goal was to improve access to capital for SMEs (small and medium-sized enterprises) and promote economic development. Some stakeholders (issuers, investors, advisers) perceived that the established regime was inadequate and unduly restrictive.
Action Taken	Regulation of prospectus-exempt market was revised, implementing many of the Task Force's recommendations. Deliver study to Ministry of Finance, examining the impact of new rule after having been in effect for one year.
Stakeholders	Regulators, issuers, investors, advisers, provincial government
Structure of Study	A. Executive Summary B. Methodology C. Constraining Factors D. Impact Analysis E. Factors to be Considered F. Issues to be Addressed G. Conclusion **Appendix** H. Data Analysis: Market Conditions I. Data Analysis: General Characteristics J. Data Analysis: Most Frequently Used Issue Sizes K. Data Analysis: Distribution of Size Frequency Table K-1: Distribution of Size Frequency (Pre-revision vs. Post-revision) L. Data Analysis: Number of Investors per Transaction Table L-1: Number of Investors per Transaction (Pre-revision vs. Post-revision) M. Data Analysis: Rounds of Financing per Issuer Table L-1: Rounds of Financing per Issuer (Pre-revision vs. Post-revision) N. Data Sample: Total Value of Financings vs. Total Number of Financings O. Focus on Small-to-Medium Sized Enterprises **Graphs** Graph H-1: Market Conditions (Total Value) Graph K-1a: Distribution of Size Frequency (Number of Transactions) Graph K-1b: Distribution of Size Frequency (Total Value) Graph K-2a: Distribution of Size Frequency (Total Value < $500,000) Graph K-2b: Distribution of Size Frequency (Total Value ≥ $500,000) **Graph L-1a: Number of Investors per Transaction (Number of Transactions)** Graph L-1b: Number of Investors per Transaction (Total Value) Graph M-1a: Rounds of Financing per Issuer (Number of Transactions) Graph M-1b: Rounds of Financing per Issuer (Total Value)

A. Executive Summary

This study examines the impact of the revision of Rule 45-501, coming into force on Nov. 30, 2001. For this analysis, data was collected for a period prior to the revision (1995-1998) and for the period after the revision (2001-2002). The objective of the study was to determine if the revision had facilitated investment via the prospectus-exempt market. There will not be any data analysis of closely held issuers, since they are exempt from any filing requirements.

The rule revision included the replacement of previous investor restrictions with new criteria for accredited investors that would serve as proxies for the "sophistication" of an investor or the means to tolerate the potential risks of investing in a non-prospectus environment.

The goal of the new rule was to have a positive impact on this regime. The magnitude of the post-revision results has been shown to clearly exceed the activity and total value of transactions of the previous period. The results have demonstrated that:

- Total trading activity has increased,
- Average size of transactions has increased,
- The range of transaction sizes have broadened (there are more small and large transactions),
- Almost half of the transactions are valued at $150,000 and below,
- The overall size of the prospectus-exempt market has grown.

The possibility exists that other factors have contributed to the growth in this market. However, given the contraction in overall capital markets' issuance, particularly in areas of higher risk, the results suggest that the rule change was the most significant contributor to performance.

Overall, the value of investment increased from an annual average of $6.2 billion during the 1995-1998 period to $20.97 billion for the eleven months after Rule 45-501 came into force in late 2001. As noted on page 12, small and medium-sized enterprises (SMEs) were a targeted stakeholder in the introduction of this Rule. As a result, the increase of almost $15 billion was desegregated by size and type of deal to arrive at an estimate of the impact on SMEs. Removing investment fund placements and distributions in excess of $100 million generated an estimate of $2.6 billion of investment directed to the small business sector for the eleven months over 2001-2002 relative to the average from 1985-1998 (see Table O on page 20).

The Office of the Chief Economist contracted with the Institute for Policy Analysis of the University of Toronto to estimate the impact, based on appropriate assumptions, of an increase in small business financing of $2.6 billion using the Focus-Ontario macroeconometric model. The results follow:

"A simulation with the Focus-Ontario model indicates that the initiative added 0.56% to Ontario GDP in 2002, or 2.63 billions of 2002 dollars. In 2003 the impact is slightly smaller, at 0.50% of GDP or 2.42 billions of 2002 dollars…In terms of other indicators, the simulation indicates that the initiative generated 16,500 jobs in 2002 and will generate about 19,400 in 2003."

B. Methodology

Analysis

The analysis was based on a dissection of the different data elements available from the submitted forms (Form 45-501F1). Usable data elements included number of investors, issuer name, security type, trade date, and transaction size.

From the available data, the objective was to create a snapshot of the activity in the prospectus-exempt market. Comparing previous versus present performance and contrasting the activity with respect to market influences was the approach taken for examining the exempt market. The elements examined are described in the following table:

Overall market activity	Is the impact of the rule revision noticeable? Has trading increased period to period? Year to year? Has this revision helped or hindered?
Trade distribution	What are the sizes of these trades? Are there only large deals? Only small ones? What issue size is most frequently used? What issue size accounts for the most value? Have the revisions given more issuers entry-level access or is it only the realm of the well-capitalized issuer?
Issuer distribution	What are the issuers doing? Are they going to market more often? Have they embraced these changes? Are there any abnormal trade patterns?

Investor distribution	What are the buyers doing? How widely distributed are these investments? Are the syndicates for these deals growing? Is there an increased appetite for these deals?
Composition	What exemptions are being relied upon? Are fund companies responsible for all this activity?
Market conditions	Are interest rates helping the cause? Does a downturn in the markets hurt exempt investment? Does a bull market hurt exempt investment?

Data Collection

Starting in March 2002, OSC staff designed a database for this impact study, and populated it using hard copies of Form 20 and 45-501F1 submissions. For purposes of this analysis, the data included submissions made up to Oct 2002. The data consisted of two periods: Jan 1995-Dec 1998 (4 years) and Dec 2001-Oct 2002 (11 months). The reason for the data gap is explained in Constraining Factors.

Every transaction continues to be manually entered into the database from forms submitted to the Commission. The database also provides the benefit of maintaining the transparency of these transactions. The information captured is published in the OSC Bulletin to inform the public of these transactions. The data will be available for future analysis, should additional research be desired.

All entries were validated and checked for logical errors. The data universe contains 8989 transactions. The data used for this study contains 8679 transactions. Substantial effort was necessary in making this universe homogeneous, to aid in comparability. The difficulty lies in the open formatting of the responses. There are no restrictions on the content that is submitted on the forms, creating uncertainty and complicating the reporting process for the users. This can lead to problematic situations such as the creation of multiple categories for the same item (e.g. common shares, common stock, common equities). This administrative burden is examined in Issues to be Addressed.

C. Constraining Factors

Data Sample	It is assumed that all filings are in compliance with the rules governing these transactions. The present data's short time horizon increases the difficulty in examining the long-term impact of rule revision. The non-continuous data sample restricts the ability to observe the period leading up to the revision. Analysis was done on an absolute basis (comparing period to period) and on a relative basis (comparing to market conditions) to facilitate the two periods' comparability.

There exists a break in the data between Jan 1999-Nov 2001. The implementation of the original rule (on Dec. 1998) required only limited disclosure on the form used during that period, restricting the submission's usefulness. The pre-revision period is comprised of four years. The present period has a span of only eleven months. The underlying market conditions deteriorated between these two periods, therefore potentially influencing the results. This issue is addressed in Factors to be Considered.

Accredited Investor exemption	The accredited investor exemption will be the focus of this analysis, since useful data is available only from this set of submissions.

This study uses only data available from 45-501F1 submissions. Only 45-501F1 submissions contained sufficient detail to facilitate the analysis. Other forms submitted under this rule are used for publication purposes, but contain little meaningful detail to enable any detailed analysis. Transactions under the closely held exemption do not require any filings.

Total impact of rule revision	Total trade impact of rule revision is unknown, due to non-reporting of transactions relying on the closely held issuer exemption. Creating the Small Business Advisory Committee is a step towards receiving feedback from this issuer community.

The closely held issuer exemption was intended to benefit small or medium-sized enterprises. No information is filed on transactions made in reliance on this exemption in the past or the present. The possibility exists that an issuer of any size may use both this exemption or similar exemptions and the Accredited Investor exemption simultaneously, given that their investors can satisfy the respective conditions.

D. Impact Analysis

An examination of the eleven-month post-revision period's results has demonstrated that there has been a substantial increase in the exempt market's activity over the previously observed four-year period. The strength of the eleven-month figures when

compared against the four-year totals points to a resounding endorsement of the new framework. Issuers are seeking more financing and seeking it more often. Overall, investors are willing to invest more. The volume of activity has multiplied. The distribution of transactions is dispersed over a wider range, with the majority of transactions having shifted down to smaller sizes. The increased activity has also attracted an increased number of larger issuances.

Highlight: More activity	The present period's total trade activity is greater than under the previous rule. The number and the total value of the transactions have increased. The variety of transaction sizes has also expanded.

(Refer to Appendix N)

The universe under observation is the four-year pre-revision period from 1995-1998 and the eleven-month post-revision period. The data sample is organized by chronological frequency (annual, quarterly, monthly). Regardless of the data frequency chosen, the data clearly demonstrate the increased activity of the most recent period, in terms of quantity and value of transactions. There exists a seasonal uptick pattern in issues in Q4 that can be attributed to year-end considerations (e.g. tax-related concerns).

(Refer to Appendix I)

The following statistics also indicate that the present period's activity has definitively surpassed the pre-revision period:

- The total number of investors in the eleven-month period (14,064) is slightly less than the four-year period (17,411)
- The average number of transactions per quarter has more than doubled, up from 322 to 706.
- The average quarterly total value of transactions is 2.7 times larger. ($1.55B to $4.17B)
- Maximum rounds of financing by a single issuer rose from 51 to 350.
- Maximum number of investors participating in a single transaction increased from 388 to 502 investors.

(Refer to Appendix K)

The distribution of transactions has shifted from issuing at the mid-range of transaction sizes, to the smaller and larger transaction sizes.

- Instead of clustering around the mid-range of transactions ($500,000 to $5M), the transactions are more evenly spread out, across a wider range.

The overall performance of financial markets may be an external factor that might influence these outcomes. **Factors to be considered** will examine the following market related influences:

- Overall performance of financial markets
- Overall corporate issuance activity

Highlight: More smaller deals	The number of small transactions has increased. Investors and issuers have expanded access to smaller amounts than previously available and are making use of this access.

There has been a significant impact on the size of financings with the removal of the minimum investment requirement of $150,000.

(Refer to Appendix J)

- In the pre-revision period, the five most frequent transaction sizes ranged from $150,000 to $500,000, with the most frequent transaction size being $150,000 with 257 transactions at that level.
- Presently, the five most frequent transaction sizes range from $1500 to $150,000, with the most frequent transaction size now at $3000 with 151 transactions.

(Refer to Appendix I)

- The median transaction size has dropped 52% from $522,447 to $250,000, indicating that half of the transactions in the present universe are at this level and below.

- The median investment size per individual has decreased 60% from $300,000 to $120,000, indicating that half of the investments are at this level and below.

(Refer to Appendix K)

- The number of deals of the smallest size (< $150,000) has significantly increased, from 946 to 1415.

(Refer to Appendix L)

- More deals involving 50-99 investors are being transacted (from 11 to 17), but the average transaction size is smaller.

Highlight: More larger deals	The number of large transactions has increased. Issuers are finding more investors who can invest at all levels. Large issuers are issuing more and large investors are investing more. The number of one-time issuers and very frequent issuers (greater than 50 rounds of financing per period) has increased and are issuing larger blocks than previously.

(Refer to Appendix I)

- An investor's average investment in the exempt market has increased by 24%. ($2.8M to $3.5M)

- The average transaction size is up from $4.8M to $5.8M.

- The largest investment by a single investor rose 26%, from $500M to $630.7M.

- The largest single transaction grew almost 4 times, up from $500M to $1.98B.

(Refer to Appendix K)

- Combining the 3 largest transaction size categories (<500M, <1B, ≥1B), the absolute quantity of transactions has grown from 43 to 52 and the total value of financing has increased from $7.9M to $10.8M.

(Refer to Appendix L)

- The total value of transactions remained largest for deals with only a single investor (from $12.2B to $11B).

- Compared to the pre-revision period, deals involving 10-19 investors have declined (from 277 to 197), but they have become larger in value ($1.9B to $4.2B).

- The issue sizes for deals distributed to more than 100 investors have grown (from $4.4M to $360.4M).

(Refer to Appendix M)

- One-time issuers account for a greater portion of the total value of transactions for the present period (from $7.4B to $11B).

- The total value of very frequent issuers (greater than 50 rounds of financing per period) rose from $1.8M to $29.5M, with the number of issuers growing (from 1 to 3).

Highlight: Exemption is being used	Grouping the submissions by exemption used, the largest group of transactions relied on the Accredited Investor exemption. The next largest exemption grouping of the transactions relied on the exemption designated for mutual funds and non-redeemable investment funds.

The exemption with the most submissions was filed under 45-501-2.3, the Accredited Investor Exemption (trades: 3046, value: $17.06B). The next largest group was filed under 45-501-2.12, the exemption for mutual funds or non-redeemable funds (trades: 272, value: $2.98B). There are no other sizeable groupings of exemption use.

E. Factors To Be Considered

There may be events or influences beyond the revision of the rule that may also have an impact on the performance of the prospectus-exempt market. Explored below are factors that may have had an effect on the results that were gathered.

Is it possible that the volume of trades reported is a result of greater compliance? Have the filing requirements become more attractive?

It is possible that when the previous minimum investment requirements existed, reporting of trades below the minimums was not possible, since these trades were prohibited. The effect of lifting these minimums may result in increased reporting.

As in the past, there exists a fee component when submitting a form, a cost that would not be incurred needlessly. The fee structure has remained the same in the revised regime, so that there is no increased financial incentive to file now, i.e. it has not become less costly to submit filings. Administratively, there is a cost in becoming familiar with the new requirements of the form. In addition to the changes to the rule, the present submission requires more detail to be given than the past period covering the years 1999-2001.

Given the existing costs and the increased reporting requirements, there does not appear to be a strong motivation for the users to increase transaction reporting to the regulators.

Is there a risk that certain transactions may influence the results?

Abnormal trading patterns

The first distorting factor could be transactions submitted as a result of improper compliance with the associated rules. Categorized as technical violations (e.g. distributing securities to investors who are in fact not an Accredited Investor), these transactions may have the effect of overstating the results.

The second factor is submitting a form for each investor for a small transaction size (e.g. $1000 or $3000). The practice of reporting many small transactions to many investors, instead of a single aggregated transaction with many investors, would overstate the activity due to the over-reporting of transactions. The high frequency issuing of small sizes would skew the distribution and averages downward, altering the trade distribution. To account for this potential discrepancy, the number of investors for each deal was captured, permitting a transaction to be viewed by the average investment per investor, to control for this effect on the data.

Although the transactions might be in compliance with the governing rules, this behavior has been associated with the unethical business practices of some issuers (e.g. boiler rooms). It is difficult to ascertain whether this period has become more conducive to greater marketing/promoting or increased fraudulent practices than in other periods, resulting in increased submissions. Enforcement statistics are also confronted with a similar dilemma, whether or not there is increased activity or increased reporting. Beyond observing the increased level of activity or reporting, the goal of examining individual transaction characteristics is to identify and confirm whether the structure of the market's activity has changed (e.g. more small transactions, less large transactions, etc.). Not only is there increased overall activity, the results have demonstrated that individual investors have expanded into a broader range of investments.

Presently, there are only three securities that are suspect; Case Assessment is investigating two issuers/promoters, the third has proceeded to a hearing. Only a single issuer had distributed frequently in small amounts. Hedge funds and income trusts constituted the majority of the very frequent issuers and the transactions that were distributed to many investors (which is addressed below). Having examined the effect of the suspect transactions on the total post-revision sample, the resulting impact was negligible.

Investment Funds and Income Trusts

The recent popularity of non-redeemable investment funds and income trusts has translated into increased business activity for these entities. The activity includes distributions to individual investors and transactions between the asset managers. By the sheer size of the buy-side's transactions in any market when compared to other issuers and investors, their influence should be examined, since they may impact the composition of the data.

After examining our universe, transactions originating from this group of companies were numerous, but did not constitute the majority of overall transactions. Fund-related transactions accounted for 808 transactions, valued at $6.17B. These transactions accounted for a quarter of the volume and value of the post-revision period. Excluding and including transactions originating from funds and trusts did not noticeably affect the majority of statistics. The only noticeable change was a decrease in the maximums for transaction size and investment per investor. Given the dispersion of transactions in this subset, the associated transactions were not clustered in any specific area to create a significant distortive effect.

The potentially distortive effects of abnormal unethical trading practices and increased buy-side activity were identified and examined. The impact of these factors did not distort the study's data or alter its findings.

Is there a possibility that market conditions may influence the results?

Corporate issuance and market performance

(Refer to Appendix H)

An issuer's decision on seeking financing is influenced by their natural inclination to seek financing at the lowest cost (of prime importance for large issuers) versus the desire to find the most available financing (of prime importance for small issuers). Overall market performance has an implication on the available capacity of issuances to be absorbed by investors. As the financial markets perform well, investors will maintain their demand for investment opportunities. The riskier nature (illiquid and reduced protection) inherent in the prospectus-exempt market makes these vehicles the first to be vulnerable in market downturns and the last to benefit from upturns.

For larger issuers, the marketing and transaction costs associated with "going public" and seeking additional (secondary) funding from the corporate sector, and the potential time delay associated with the prospectus process can be avoided in the prospectus-exempt market. Exempt financing can provide larger issuers with a substitute venue to traditional public corporate issuance, but only under stable market conditions.

For smaller issuers confronted by a steep tightening in the corporate issuance market and decreasing access to financing, the recent decline in the financial markets would be expected to cause their activity levels in the prospectus-exempt market to decline substantially. In other words, confronted with the source of the financial wells drying up, the well available to smaller issuers would be expected for to dry up as fast, if not faster, than the main markets.

For the period spanning 2001-2002, corporate issues drastically fell, hitting similar levels to 1995-1996. Note that Q3 2002 was the first time since Q1 1995 that corporate bonds were not net issuers. As well, the asset class of venture capital, which closely resembles the qualities of prospectus-exempt financing, experienced a substantial drop in available capital. This overall decline, indicative of the severe contraction of funding available for these investments, was not transmitted to exempt financing. The actual result was the growth of prospectus-exempt financings to unprecedented levels, as corporate issuance and overall markets contracted. Although faced with difficult market conditions, the data has indicated that prospectus-exempt financing has grown beyond the capacity that was previously possible and should continue to do so.

The recent market conditions have been so severe, that it would have been expected to have infected all sources and venues for financing, eliminating any potential safe havens for seeking capital. Given this challenging environment, it was remarkable to observe the unprecedented strength of the prospectus-exempt regime, providing supporting evidence that the new rule has contributed to this outcome.

The increased activity of larger issuers can be attributed to their goal of minimizing financing costs, made more accessible by the rule revision. The impact on the smaller issuers has been a result of the new rule's removal of minimum investment restrictions.

F. Issues To Be Addressed

For this market, where should the balance fall between protection and market efficiency?

The premise for the prospectus-exempt regime is to reduce the regulatory burden surrounding issuance of securities, under certain conditions. The investor should be aware of the risk associated with the limited protection or recourse available to the investor in a non-prospectus environment versus the benefits derived from an issuer's ability to issue under reduced regulatory requirements (i.e. transaction details are reported post-trade). The added wrinkle in this "Accredited Investor" regime is that the investor is required to be judged "sophisticated" and willing to invest where there is no prospectus. The establishment of a "means test" or financial thresholds is a mechanism to screen the investor's risk tolerance against their financial suitability to risk their assets.

As with other activities covered by the Securities Act, unfair and fraudulent conduct is possible. The means to detect and enforce against this behavior in this regime is the same as in any other regime. The difficulty exists in determining the level of protection necessary for this regime, given the degree of self-selection required to participate.

Are there aspects of the new rule that have become overly restrictive?

Closely held issuer

Since this group of issuers has been exempt from any filings, no data has been collected on these transactions to enable any economic analysis. In place of this analysis, consultations have commenced with representatives of this community. The Small Business Advisory Committee will serve as a forum for this dialogue. The goal is to respond to their concerns and to work

towards developing suggestions that would enable further improvements. This work would contribute to the basis for future amendments.

Accredited Investor

During the initial comment period in 1999, many commentators were concerned with the derivation of the thresholds in forming the Accredited Investor category. They commented that the thresholds for net income or net assets had become overly restrictive, creating a barrier to entry to the investors who could benefit most from this access. The long-term impact cannot be determined at this point. Presently, the results do indicate that a transition towards smaller transactions for the majority of trades has begun to take place.

How can the administrative burden of this process be reduced?

The present forms have required more detail. Although the type of information submitted on the forms has not changed greatly from previous forms, the composition of the filers may have changed due to the rule revision. The population base of new exemption users may have expanded. Increased use by the uninitiated presents difficulties in making use of the information on these submissions. The present processing of these transactions is complicated by the fact that beyond the section headings on the form, there is no consistency in the information being received or required. This complication affects the accuracy of the transaction details being disseminated for public consumption and the ability to extract greater detail from this data.

Although a year has passed, providing continued education to assist filers with their familiarization of the rule and giving guidance on the filing requirements would provide a solid foundation in resolving this situation. Further decreasing the administrative burden and streamlining this process could be achieved by standardizing the inputted content, via a web-based form. This electronic process would immediately create a more accurate and homogenous data set. The administrative effort would be reduced for issuers and regulators. The issuer would benefit from the reduction in uncertainty and effort in trade reporting, and possibly aiding in compliance. The regulator's effort in recording these transactions could be reallocated to ensuring quality control of these submissions.

G. Conclusion

It has been one year since Rule 45-501 has been revised. The goal was to lift some of the restrictions of the previous rule. It was expected to generate a positive impact. The initial look at what has transpired in the prospectus-exempt market during that time indicates that it has been undeniably positive. The analysis of the collected data has provided support to the contribution that has been made by this revision. The motivation for this revision was the concerns that originated from the 1994 Task Force Report. The revision was meant to address the restrictive elements of the previous framework and promote efficient capital formation.

"$150,000" Exemption

One restrictive element that was removed concerned the "$150,000" exemption. The monetary threshold was used as a screening mechanism to allow entry into this investment arena. The results show that there has been a significant impact at this range of investment. The ability to invest at these levels has not gone unnoticed. The present capital inflows of this transaction size overshadow the activity of the previous period from 1995-1998. Access to these investments has been made available to a broader investor base.

The additional benefit of removing the minimum investment requirement is the reduction of risk to the investor. An investor's risk was increased under the previous framework because a minimum investment was required for these illiquid securities with decreased protection, regardless of the investor's risk tolerance. Investors can now benefit from not being forced to be over-weighted in these securities and have the facility to diversify their risk across several prospectus-exempt securities, if so desired.

Promote Efficient Capital Formation

By all indications, prospectus-exempt financings have solidly grown, indicating an acceptance of the new framework. In the face of an overall contraction in the markets, the new rule appears to have taken a step in the right direction. Across the board, gains in exempt financing may be explained by the structural change caused by the revision. The recent growth in the number of transactions and its associated value greatly exceeded the levels of the years in the previous period, despite the severe market influences that should have resulted in an overall contraction.

Facilitating SME Capital Formation

A targeted stakeholder of the Task Force was SMEs. The reworking of the closely held exemption was meant to address the previous restrictive interpretations of the exemption. In an attempt to curb previous abuses, the present reformulation of the closely held exemption has introduced different restrictions to this provision. Although the changes were expected to have a

negative impact, there is a lack of detail regarding closely held activity, therefore making it difficult to determine the net outcome of the revision in this area. Further study of this area would be needed to ensure one of the main objectives of the Task Force was reached.

One Step Forward

It is evident that as a result of this effort, positive gains have been made in promoting the efficiency of capital formation under this regime. After having observed this new framework in action for one year, further improvements in this framework and its processes have been identified and should be considered. As noted, there are restrictive elements in the present framework that should be slated for change. There are processes that can be streamlined for the benefit of all users of this information. The analysis has provided a map of where this project has come from and can guide it to the next step in its journey.

H. Data Analysis: Market Conditions

The table compares corporate new issuance to transactions under 45-501. For the purpose of this comparison, corporate new issues are comprised of net new issues of corporate bonds, common stocks and preferred shares.

Quarterly	Prospectus-Financing ($)	Prospectus-Exempt ($)
1995 Q1	1,203,000,000	985,420,893
1995 Q2	5,084,000,000	680,619,459
1995 Q3	4,857,000,000	986,696,481
1995 Q4	3,375,000,000	1,651,001,452
1996 Q1	4,245,000,000	1,093,511,289
1996 Q2	7,003,000,000	2,177,562,027
1996 Q3	2,525,000,000	1,141,081,581
1996 Q4	12,120,000,000	1,725,894,095
1997 Q1	9,649,000,000	2,333,391,292
1997 Q2	6,935,000,000	2,003,722,348
1997 Q3	10,622,000,000	2,451,757,887
1997 Q4	12,003,000,000	3,090,883,224
1998 Q1	7,616,000,000	1,226,056,950
1998 Q2	10,605,000,000	2,308,056,480
1998 Q3	5,544,000,000	374,690,164
1998 Q4	3,433,000,000	573,697,119
2001 Q4	11,920,000,000	4,176,440,100
2002 Q1	5,924,000,000	4,645,490,327
2002 Q2	7,061,000,000	5,685,803,572
2002 Q3	3,377,000,000	5,113,488,973

I. Data Analysis: General Characteristics

The first period covers Jan 1995-Dec 1998. The second period covers Dec 2001-Oct 2002.

Note: Rounds of Financing for Issuer represents the total number of deals submitted by one issuer for that period. # Investors per Transaction represents the number of investors participating in one transaction.

Table I-1: General Characteristics

	1995-1998	2001-2002
Issuers (#)	2,368	1,600
Investors (#)	17,411	14,064
Transactions (#)	5,151	3,528
Value ($)	24,804,042,741	20,970,564,052
Transaction Volume: Quarterly Avg ($)	1,550,252,671	4,165,102,154
Transaction Volume: Quarterly Avg (#)	322	706
Investment per Investor: Median ($)	300,000	120,000
Investment per Investor: Avg ($)	2,838,549	3,517,156
Investment per Investor: Max ($)	500,000,000	630,680,000
Issue Size: Median ($)	522,447	250,000
Issue Size: Avg ($)	4,815,384	5,820,616
Issue Size: Max ($)	500,000,000	1,981,253,800
Rounds of Financing for Issuer: Max (#)	51	350
# Investors per Transaction: Max (#)	388	502

J. Data Analysis: Most Frequently Used Issue Sizes

The following list represents the 5 most frequently used issue sizes.

Table I-1: Most Frequently Used Issue Sizes

	1995-1998		2001-2002
Issue Size	# Deals	Issue Size	# Deals
150,000	257	1,500	93
200,000	61	3,000	151
250,000	51	6,000	52
300,000	68	50,000	47
500,000	84	150,000	61

K. Data Analysis: Distribution of Size Frequency

Table K-1 describes the number of issues and the total value for a given range of issue sizes. The purpose of this representation is to provide a perspective of how the transaction values are being distributed.

Interpretation: The range "$500,000 < 1 M" will be used for the following example. For the period 1995-1998, 604 transactions have raised over $ 419.3M. Over the 4-year period, the annual average number of transactions was 151 and the annual average value of transactions was $104.8M. From 2001-2002, 338 transactions have raised over $231.7M.

Table K-1: Distribution of Size Frequency (Pre-revision vs. Post-revision)

Total Value per Issue Size	1995-1998	1995-1998 (Annual Avg.)	2001-2002
Trade Value ($):			
0 - < $150,000	46,558,645	11,639,661	51,305,363
$150,000 - < $200,000	81,703,257	20,425,814	33,703,412
$200,000 - < $300,000	79,381,815	19,845,454	50,432,732
$300,000 - < $400,000	96,048,496	24,012,124	56,545,742
$400,000 - < $500,000	95,936,510	23,984,128	46,539,592
$500,000 - < $1 M	419,333,624	104,833,406	231,736,681
$1 M - < $2 M	721,611,726	180,402,932	618,867,945
$2 M< $5 M	1,980,599,650	495,149,913	936,574,167
$5 M< $10 M	2,317,075,185	579,268,796	1,096,173,659
$10 M - < $50 M	6,851,430,189	1,712,857,547	3,900,518,492
$50 M< $100 M	3,690,471,538	922,617,885	3,022,646,028
$100 M - < $500 M	7,923,892,106	1,980,973,027	7,370,741,177
$500 M - < $1 B	0	0	1,695,787,082
≥ $1 B	0	0	1,981,253,800
# Deals per Issue Size	1995-1998	1995-1998 (Annual Avg.)	2001-2002
#Transactions			
0 - < $150,000	946	237	1415
$150,000 - < $200,000	511	128	205
$200,000 - < $300,000	331	83	213
$300,000 - < $400,000	287	72	165
$400,000 - < $500,000	216	54	105
$500,000 - < $1 M	604	151	338
$1 M - < $2 M	516	129	280
$2 M< $5 M	638	160	290
$5 M< $10 M	329	82	161
$10 M - < $50 M	329	82	185
$50 M< $100 M	48	12	43
$100 M - < $500 M	43	11	48
$500 M - < $1 B	0	0	3
≥ $1 B	0	0	1

L. Data Analysis: Number of Investors per Transaction

The following table groups each transaction by the number of investors participating in the transaction. The data represents the total value and the total number of deals satisfying each range. The purpose of this representation is to provide a perspective of how widely distributed each transaction is.

Interpretation: The category "≥ 100" represents the deals that were distributed to greater than 100 investors for the given period. For the period 1995-1998, 2 deals were distributed to greater than 100 investors, with those deals raising a total of over $4.3M. For the period 2001-2002, 8 deals were distributed to greater than 100 investors, with those deals raising a total of over $360.4M.

Table L-1: Number of Investors per Transaction

# Investors per Deal	1995-1998	1995-1998 (Annual Avg.)	2001-2002	1995-1998	1995-1998 (Annual Avg.)	2001-2002
	Trade Value	Trade Value	Trade Value	# Deals	# Deals	# Deals
1	12,237,426,142	3,059,356,536	11,026,350,237	2,830	708	2,264
2-4	4,633,197,545	1,158,299,386	2,343,337,443	1,151	288	627
5-9	2,480,214,457	620,053,614	1,627,318,693	449	112	330
10-19	1,926,402,881	481,600,720	4,170,541,795	277	69	197
20-49	3,065,310,338	1,068,064,214	1,021,791,645	144	46	79
50-99	569,967,829	569,967,829	386,932,607	11	11	17
≥100	4,352,395	4,352,395	360,414,713	2	2	8

M. Data Analysis: Rounds of Financing per Issuer

The following table groups the issuers by how frequently they are issuing. The data represents the total value and the number of issuers satisfying each range. The purpose of this representation is to give a sense of how aggressively issuers have been using the prospectus-exempt market.

Interpretation: The category "≥ 50" represents the issuers who have issued greater than 50 times for a particular period. For the period 1995-1998, 1 issuer used the prospectus-exempt market greater than 50 times, raising a total of over $1.8M. On an annual basis, no issuer had greater than 50 rounds of financing in one year in the pre-revision period. For the period 2001-2002, 3 issuers issued greater than 50 times, raising a total of over $29.5M.

Table M-1: Rounds of Financing per Issuer

Rounds of Financing	1995-1998	1995-1998 (Annual Avg.)	2001-2002	1995-1998	1995-1998 (Annual Avg.)	2001-2002
	Trade Value	Trade Value	Trade Value	# Issuers	# Issuers	# Issuers
1	7,441,429,538	2,899,343,315	10,959,679,199	1,394	543	1,054
2-4	9,662,943,342	2,193,142,850	5,918,720,678	790	489	441
5-9	3,441,391,733	470,944,877	1,658,409,115	131	126	73
10-19	2,790,282,418	1,125,766,457	2,353,982,087	41	195	18
20-49	1,466,122,805	39,595,689	50,235,537	11	125	11
≥50	1,872,905	0	29,537,436	1	0	3

N. Data Sample: Total Value of Financings ($) vs. Total Number of Financings (#)

The data sample represents the total value and total number of financings reported under Rule 45-501.

Annual	Value ($)	Financings (#)
1995	4,303,738,285	1,137
1996	6,138,048,992	1,574
1997	9,879,754,751	1,584
1998	4,482,500,713	856
2001	4,176,440,100	415
2002	16,649,070,672	3,113
Quarterly	Value ($)	Financings (#)
1995 Q1	985,420,893	235
1995 Q2	680,619,459	243
1995 Q3	986,696,481	313
1995 Q4	1,651,001,452	346
1996 Q1	1,093,511,289	375
1996 Q2	2,177,562,027	456
1996 Q3	1,141,081,581	360
1996 Q4	1,725,894,095	383
1997 Q1	2,333,391,292	408
1997 Q2	2,003,722,348	397
1997 Q3	2,451,757,887	356
1997 Q4	3,090,883,224	423
1998 Q1	1,226,056,950	295
1998 Q2	2,308,056,480	270
1998 Q3	374,690,164	183
1998 Q4	573,697,119	108
2001 Q4	4,176,440,100	415
2002 Q1	4,645,490,327	841
2002 Q2	5,685,803,572	1,111
2002 Q3	5,113,488,973	986

Monthly	Value ($)	Financings (#)	Monthly	Value ($)	Financings (#)
1995/01	97,427,591	78	1998/01	190,419,883	68
1995/02	519,691,855	75	1998/02	390,064,103	91
1995/03	368,301,447	82	1998/03	645,572,964	136
1995/04	397,399,219	61	1998/04	1,195,623,423	98
1995/05	79,161,367	62	1998/05	557,438,354	86
1995/06	204,058,873	120	1998/06	554,994,703	86
1995/07	308,068,815	94	1998/07	100,470,003	74
1995/08	344,676,919	114	1998/08	142,732,994	57
1995/09	333,950,747	105	1998/09	131,487,167	52
1995/10	850,392,451	84	1998/10	290,467,774	55
1995/11	171,441,644	88	1998/11	267,177,595	43
1995/12	629,167,357	174	1998/12	16,051,750	10
1996/01	143,533,759	88			
1996/02	291,589,792	130	2001/12	4,176,440,100	415
1996/03	658,387,738	157	2002/01	2,241,243,376	228
1996/04	632,232,581	128	2002/02	1,189,410,888	292
1996/05	921,013,074	186	2002/03	1,214,836,063	321
1996/06	624,316,372	142	2002/04	2,635,659,699	335
1996/07	325,738,133	146	2002/05	1,724,578,536	386
1996/08	423,102,572	107	2002/06	1,325,565,337	390
1996/09	392,240,876	107	2002/07	1,070,287,846	411
1996/10	339,915,110	88	2002/08	2,766,258,188	306
1996/11	761,536,076	120	2002/09	1,276,942,939	269
1996/12	624,442,909	175	2002/10	1,204,287,800	175
1997/01	420,582,479	116			
1997/02	416,811,148	126			
1997/03	1,495,997,665	166			
1997/04	628,333,829	138			
1997/05	470,187,852	119			
1997/06	905,200,667	140			
1997/07	1,158,701,864	134			
1997/08	608,303,902	96			
1997/09	684,752,121	126			
1997/10	1,021,334,557	126			
1997/11	1,059,588,900	118			
1997/12	1,009,959,767	179			

O. Focus on Small-to-Medium Sized Enterprises (SMEs)

Given that the primary focus of Rule 45-501 was to improve access to financing for SMEs, the following table estimates the impact on this sector. All transactions in excess of $100 million were removed from the data as well as investment fund distributions.

Transactions less than $100 000 000			
TransDate By Year	Total invested in Ontario	Average invested in Ontario	Number of transactions
1995	2,506,943,859	2,689,854	932
1996	4,462,911,429	3,365,695	1,326
1997	5,706,901,438	4,196,251	1,360
1998	2,670,524,593	3,836,961	696
Average (1995-98)	3,836,820,330	3,522,190	1,079

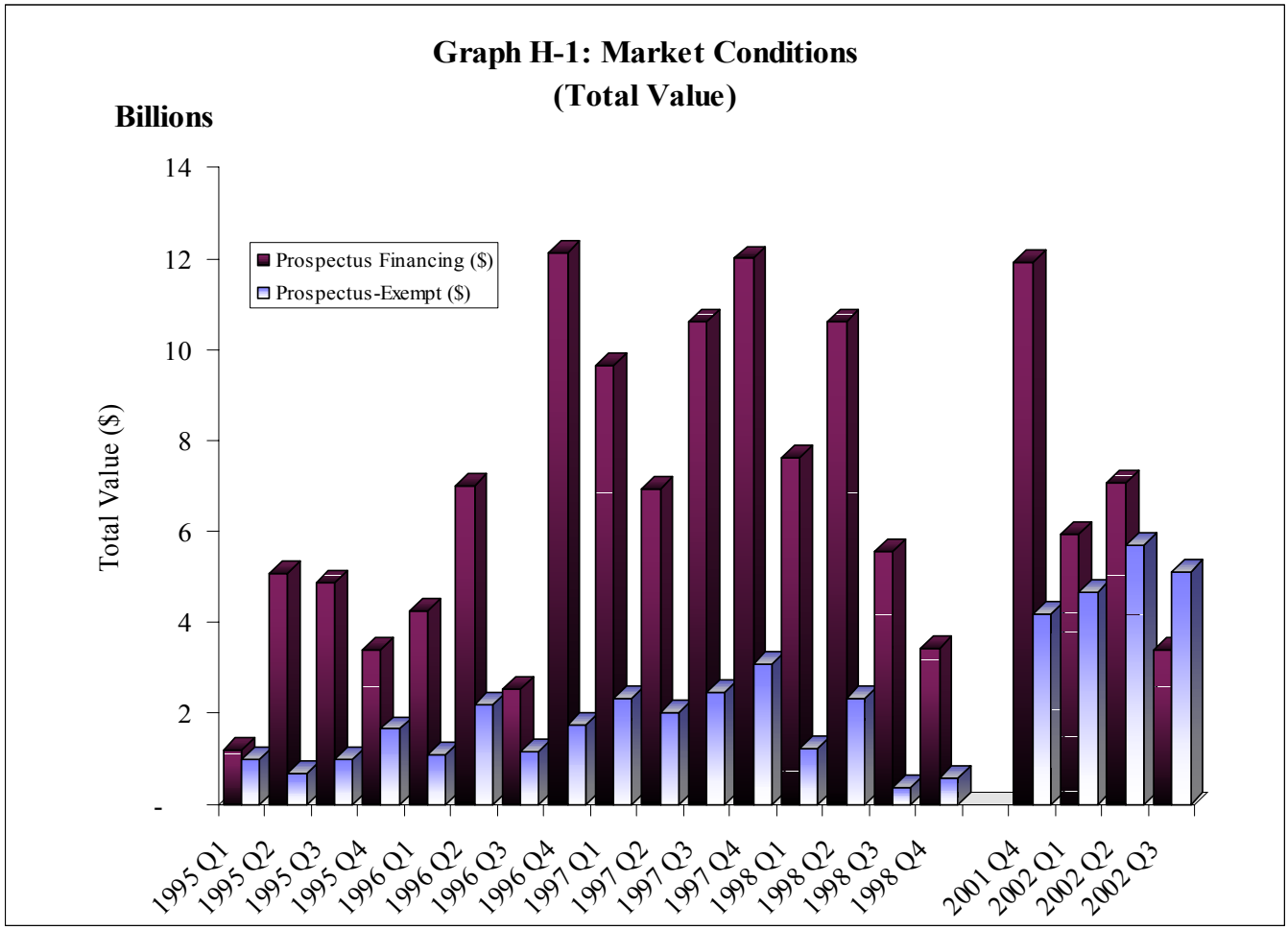
TransDate By Year			
2001/02	6,455,981,159	7,206,367	2,178
Change in SME Fuinding	$ 2,619,160,829	3,684,177	1,100

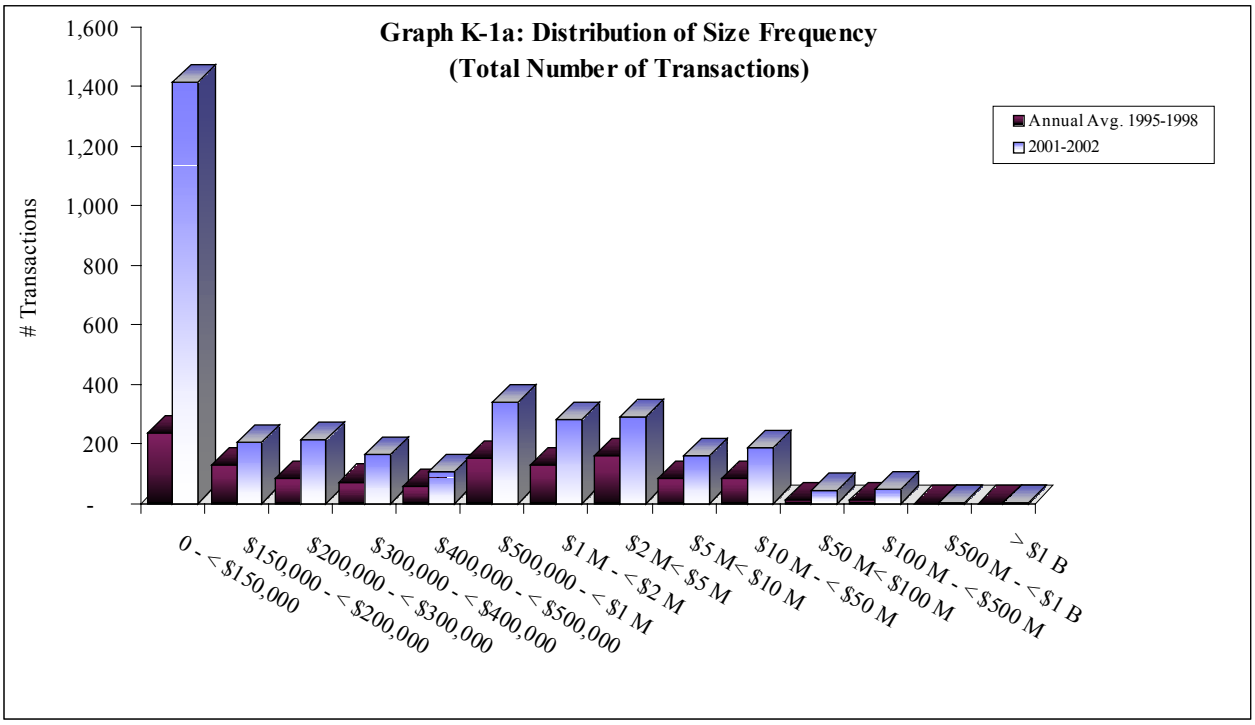
conditions:

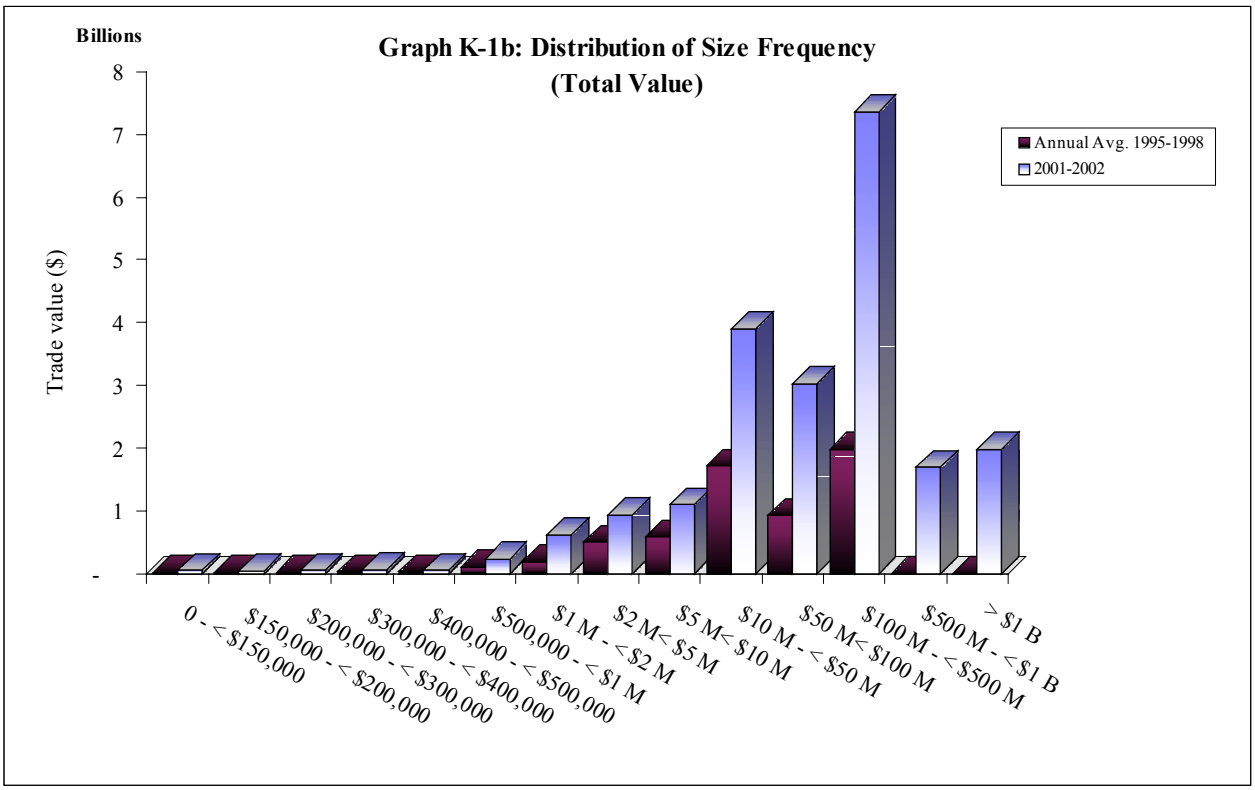
All investment funds (including income funds) were removed from the sample in both periods.

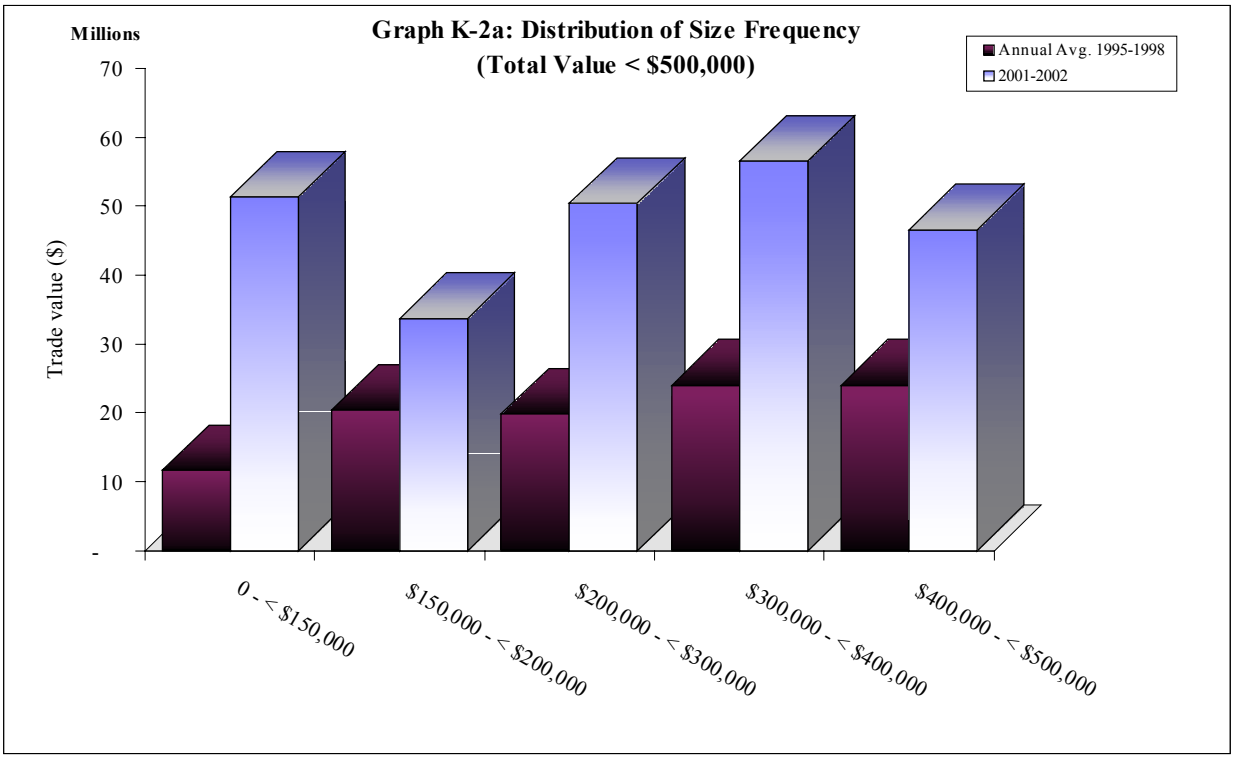
period 1: 1995-1998

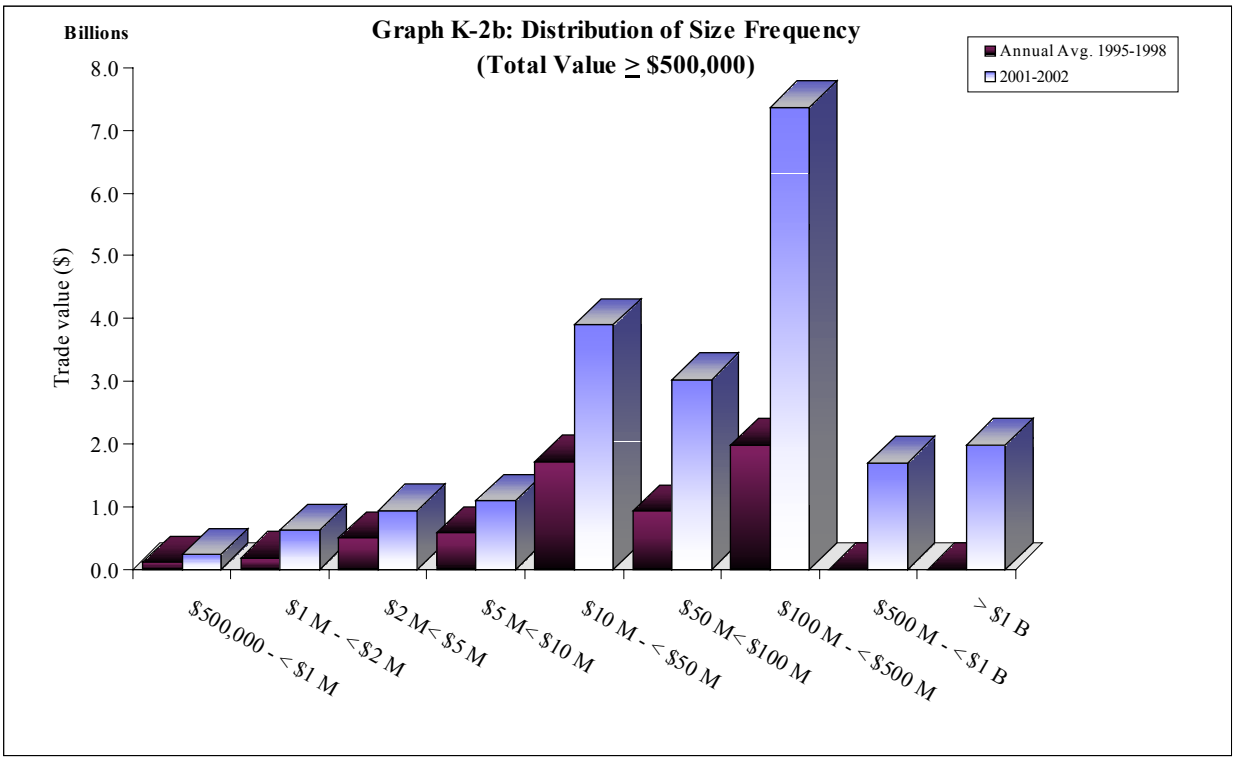
period 2: > 11/30/2001

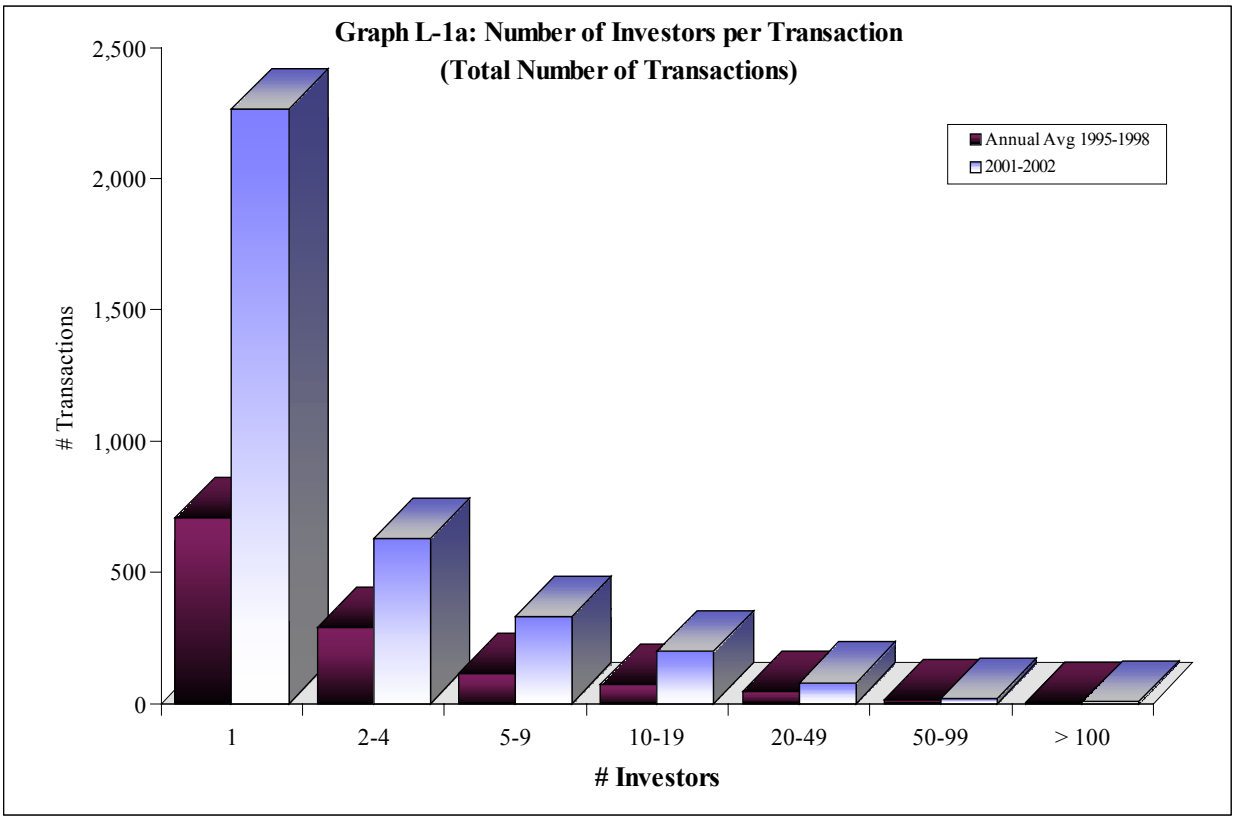

Graph H-1: Market Conditions
(Total Value)
Billions
Total Value ($)
14
12
10
8
6
4
2
-
Prospectus Financing ($)
Prospectus-Exempt ($)
1995 Q1
1995 Q2
1995 Q3
1995 Q4
1996 Q1
1996 Q2
1996 Q3
1996 Q4
1997 Q1
1997 Q2
1997 Q3
1997 Q4
1998 Q1
1998 Q2
1998 Q3
1998 Q4
2001 Q4
2002 Q1
2002 Q2
2002 Q3

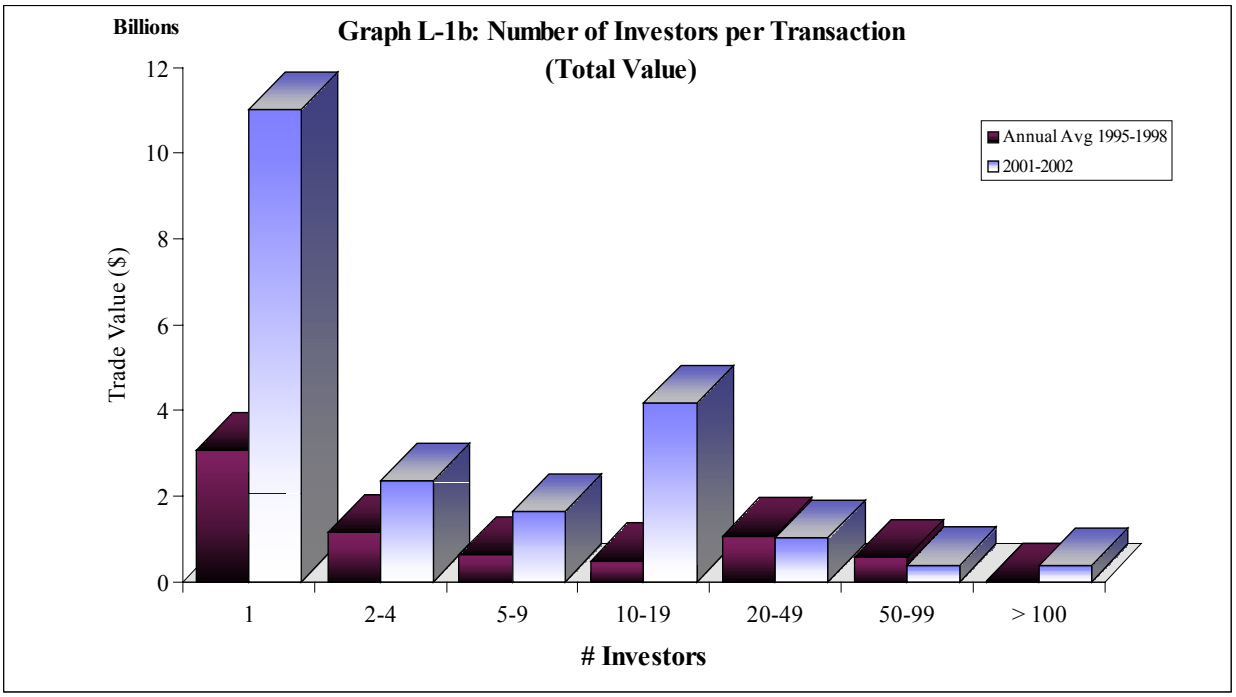

Graph K-1a: Distribution of Size Frequency
(Total Number of Transactions)
Transactions
1,600
1,400
1,200
1,000
800
600
400
200
-
Annual Avg. 1995-1998
2001-2002
0 - < $150,000
$150,000 - < $200,000
$200,000 - < $300,000
$300,000 - < $400,000
$400,000 - < $500,000
$500,000 - < $1 M
$1 M - < $2 M
$2 M< $5 M
$5 M< $10 M
$10 M - < $50 M
$50 M< $100 M
$100 M - < $500 M
$500 M - < $1 B
> $1 B

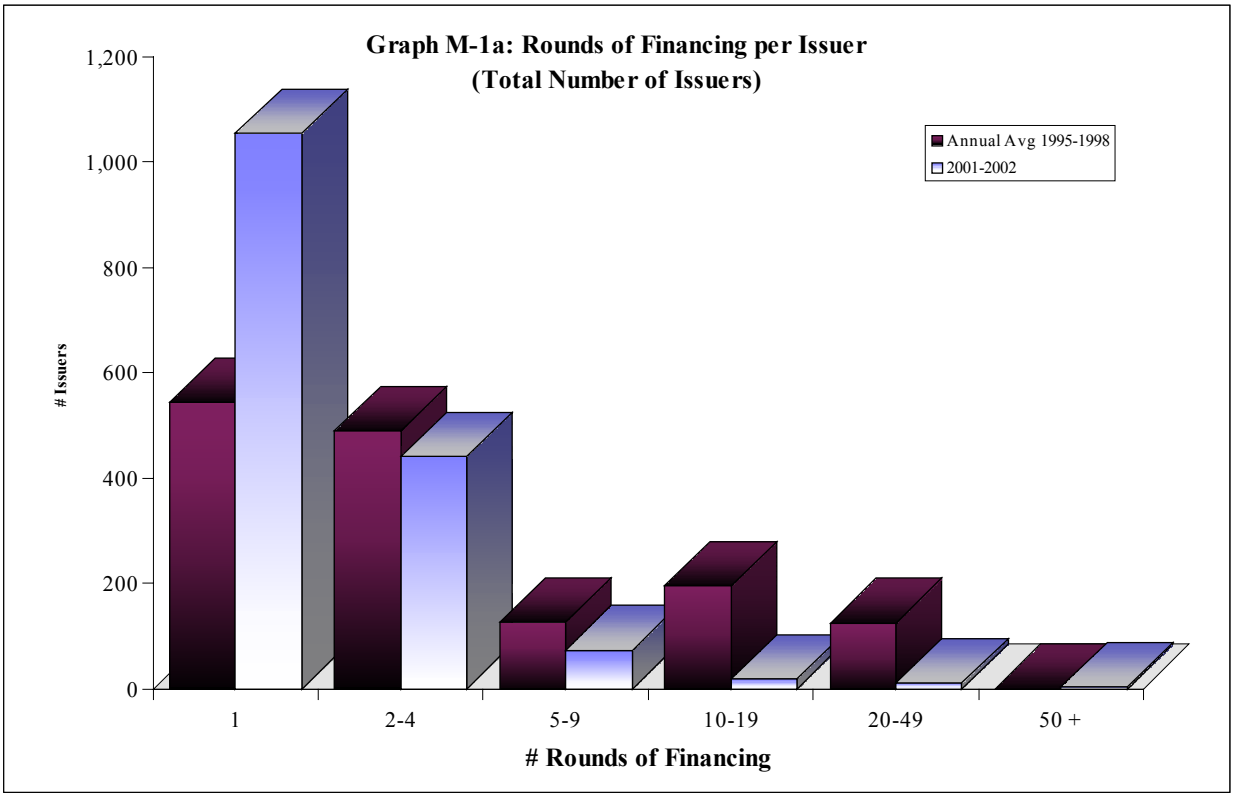

Billions
Graph K-1b: Distribution of Size Frequency
(Total Value)
Trade value ($)
8
7
6
5
4
3
2
1
-
Annual Avg. 1995-1998
2001-2002
0 - < $150,000
$150,000 - < $200,000
$200,000 - < $300,000
$300,000 - < $400,000
$400,000 - < $500,000
$500,000 - < $1 M
$1 M - < $2 M
$2 M< $5 M
$5 M< $10 M
$10 M - < $50 M
$50 M< $100 M
$100 M - < $500 M
$500 M - < $1 B
> $1 B

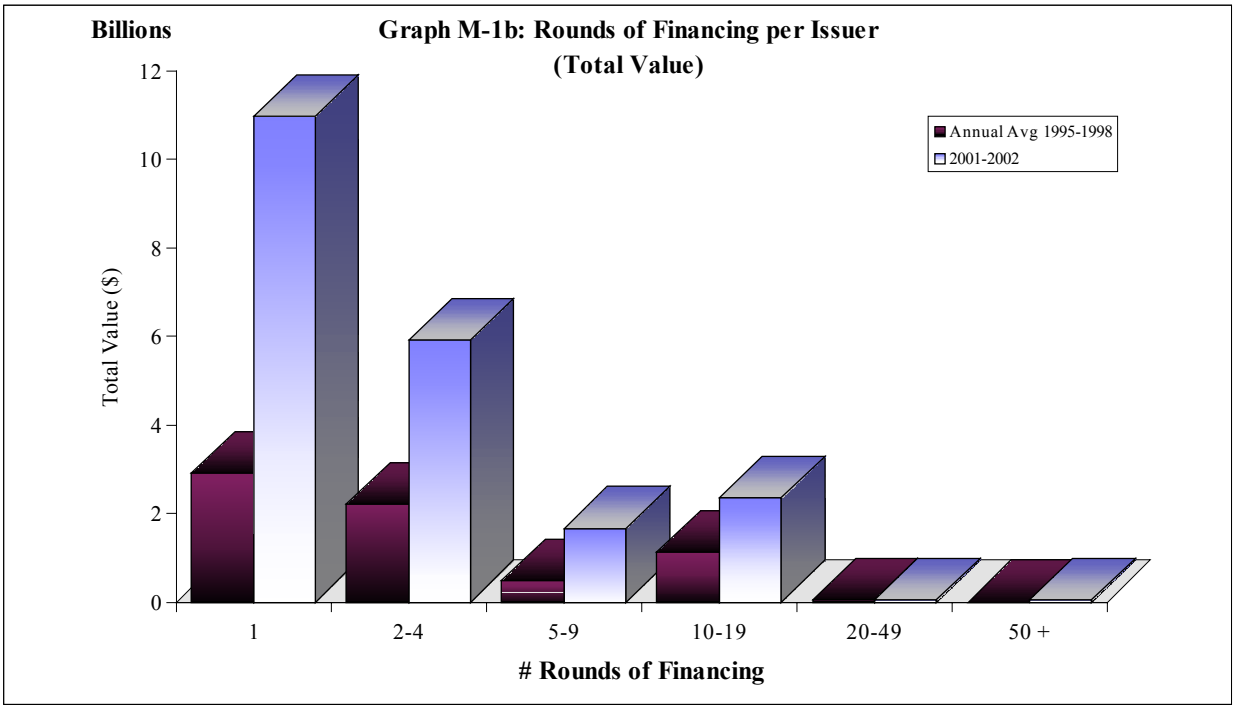

Graph K-2a: Distribution of Size Frequency
(Total Value < $500,000)
Millions
Trade value ($)
70
60
50
40
30
20
10
-
Annual Avg. 1995-1998
2001-2002
0 - < $150,000
$150,000 - < $200,000
$200,000 - < $300,000
$300,000 - < $400,000
$400,000 - < $500,000


Graph K-2b: Distribution of Size Frequency
(Total Value ≥ $500,000)
Billions
Trade value ($)
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
Annual Avg. 1995-1998
2001-2002
$500,000 - < $1 M
$1 M - < $2 M
$2 M< $5 M
$5 M< $10 M
$10 M - < $50 M
$50 M< $100 M
$100 M - < $500 M
$500 M - < $1 B
> $1 B


Graph L-1a: Number of Investors per Transaction
(Total Number of Transactions)
Annual Avg 1995-1998
2001-2002
Transactions
2,500
2,000
1,500
1,000
500
0
1
2-4
5-9
10-19
20-49
50-99
> 100
Investors


Billions
Graph L-1b: Number of Investors per Transaction
(Total Value)
Annual Avg 1995-1998
2001-2002
Trade Value ($)
12
10
8
6
4
2
0
1
2-4
5-9
10-19
20-49
50-99
> 100
Investors


Graph M-1a: Rounds of Financing per Issuer
(Total Number of Issuers)
1,200
1,000
800
600
400
200
0
Issuers
Annual Avg 1995-1998
2001-2002
1
2-4
5-9
10-19
20-49
50 +
Rounds of Financing


Billions
Graph M-1b: Rounds of Financing per Issuer
(Total Value)
12
10
8
6
4
2
0
Total Value ($)
Annual Avg 1995-1998
2001-2002
1
2-4
5-9
10-19
20-49
50 +
Rounds of Financing

1.3.4 Joint Forum of Financial Market Regulators News Release - Guidelines for Capital Accumulation Plans

FOR IMMEDIATE RELEASE (April 25, 2003)

GUIDELINES FOR CAPITAL ACCUMULATION PLANS

April 25, 2003 (TORONTO) - The Joint Forum of Financial Market Regulators has released proposed Guidelines for Capital Accumulation Plans (CAPs) for public comment.

The proposed guidelines describe the rights and responsibilities of CAP sponsors, service providers and CAP members; outline the information and assistance that should be available to CAP members when making investment decisions; and ensure that regardless of the regulatory regime, there is similar regulatory results for all CAP products and services.

CAPs include all employer-sponsored savings plans in which employees are empowered to decide how their savings are invested. They include many defined contribution pension plans as well as, for example, group RRSPs, employer stock purchase plans, and profit sharing plans.

"Once we finalize these guidelines, they will help us provide a similar level of regulatory protection for all investors making similar types of investment decisions," said David Wild, Chair of the Joint Forum.

"We have also developed a discussion document that outlines an implementation strategy framework. We encourage comments from plan sponsors, service providers and plan members to help us identify their implementation issues and let us know whether the guidelines will work for them," added Mr. Wild.

The deadline for submissions is August 31, 2003.

Copies of the proposed guidelines can be viewed at www.capsa-acor.org or www.ccir-ccrra.org and on many CSA member websites.

The Joint Forum of Financial Market Regulators was founded in 1999 by the Canadian Council of Insurance Regulators (CCIR), the Canadian Association of Pension Supervisory Authorities (CAPSA) and the Canadian Securities Administrators (CSA) and also includes representation from the Canadian Insurance Services Regulatory Organization (CISRO) and the Bureau des services financiers in Quebec.

Contacts:
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Co-chair, Joint Forum Committee on Capital Accumulation Plans
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Ann Leduc
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Chapter 2

Decisions, Orders and Rulings

2.1 Decisions

2.1.1 Cequel Energy Inc. - MRRS Decision

Headnote

Mutual Reliance Review System for Exemptive Relief Applications – Relief granted to a reporting issuer from the requirement to send its annual audited financial statements concurrently with the filing of the statements, subject to certain conditions.

Applicable Ontario Statutory Provisions

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

Rules & Policies Cited

National Policy Statement No. 51.

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

AND

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

AND

IN THE MATTER OF
CEQUEL ENERGY INC.

MRRS DECISION

WHEREAS the local securities regulatory authority or regulator (the Decision Maker) in each of Alberta, Ontario, British Columbia, Manitoba, Nova Scotia, Saskatchewan and Newfoundland and Labrador has received an application from Cequel Energy Inc. (Cequel) for a decision under the securities legislation of the Jurisdictions (the Legislation) that the requirement contained in the Legislation for Cequel to send to its shareholders its audited annual consolidated financial statements concurrently with the filing of such financial statements as required by the Legislation (the Concurrent Mailing Requirement) shall not apply to Cequel on the basis below;

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the System), the Alberta 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;

AND WHEREAS Cequel has represented to the Decision Makers that:

1. Cequel is a corporation amalgamated under the *Business Corporations Act* (Alberta) with its head office located in Calgary, Alberta.

2. Cequel is a publicly traded energy corporation engaged in the exploration, development and production of crude oil and natural gas in western Canada.

3. The common shares of Cequel are listed and posted for trading on the Toronto Stock Exchange.

4. Cequel is a reporting issuer in all provinces of Canada that incorporate such a concept in their legislation.

5. In accordance with National Policy Statement No. 51 - Changes in the Ending Date of a Financial Year and in Reporting Status (NP 51), Cequel changed the ending date of its financial year in July, 2002 and, as a result of the change, Cequel's most recently completed financial year is for the 17 month period ended December 31, 2002.

6. NP 51 requires Cequel to file both its annual information form and annual financial statements for the 17 month period ended December 31, 2002 (the 2002 Financial Statements) on March 31, 2003.

7. Cequel filed its annual information form on March 31, 2003 on SEDAR in accordance with NP 51 but as of the date hereof has not filed its 2002 Financial Statements on SEDAR as a result of the Concurrent Mailing Requirement.

8. Other than the requirement to file its 2002 Financial Statements by March 31, 2003 pursuant to NP 51, Cequel is not in default of any requirements of the applicable securities legislation in any of the provinces in which it is a reporting issuer.

9. Cequel intends to file its 2002 Financial Statements on SEDAR no later than two business days after the date of this decision document.

10. Cequel's annual general meeting of shareholders is scheduled to be held on June 9, 2003 and Cequel proposes to deliver the 2002 Financial Statements to the shareholders of Cequel entitled to receive them on May 9, 2003, concurrently with the Notice of Meeting and Management Proxy Circular for the 2003 Annual Meeting of Shareholders.

11. Cequel substantially released its 2002 Financial Statements, without an auditor's report thereon, by press release on March 13, 2003 and such financial statements are therefore available currently for viewing by the public 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 requiring Cequel to concurrently send to its shareholders the 2002 Financial Statements filed with the Decision Makers pursuant to the Legislation shall not apply to Cequel, provided that Cequel:

(a) concurrently with the filing of the 2002 Financial Statements with the Jurisdictions, issue a press release indicating that Cequel proposes to deliver the 2002 Financial Statements to the shareholders of Cequel entitled to receive them on May 9, 2003, concurrently with the Notice of Meeting and Management Proxy Circular for the 2003 Annual Meeting of Shareholders and that shareholders of Cequel, wishing to view this information in advance of May 9, 2003, may obtain copies of the 2002 Financial Statements and MD&A on request, or by accessing the 2002 Financial Statements and MD&A on the SEDAR website; and

(b) delivers the 2002 Financial Statements to the shareholders of Cequel entitled to receive them in accordance with the procedures outlined in National Instrument 54-101 – Proxy Solicitation and in any event no later than May 10, 2003.

(c) files its 2002 financial statements on SEDAR no later than two business days after the date of this decision document.

April 2, 2003.

“Agnes Lau”

2.1.2 Yamana Resources Inc. and Minera Yamana Inc. - MRRS Decision

Headnote

Mutual Reliance Review System for Exemptive Relief Application – in connection with a proposed issuer bid, request that the Applicants be exempted from the issuer bid requirements and that the prospectus requirements not apply to first trades of the common shares issued pursuant to the issuer bid – the Applicant originally proposed a conversion of preference shares to common shares, which would have been an exempt issuer bid as it would have been conducted in accordance with the terms and conditions attaching to the preference shares – due to tax considerations, the Applicant proposed to purchase preference shares on the same terms as the conversion – each of the 25 preference shareholders voluntarily agreed to sell their preference shares and agreed to the terms of the proposed purchase – all of the 25 preference shareholders are sophisticated investors – each preference shareholder agreed that receipt of issuer bid materials and compliance with the issuer bid requirements would be of no assistance in assessing the proposed transaction and would result in unnecessary expense to the Applicant – relief granted.

Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as amended, ss. 93(3)(a), 95-98, 100, 104(2)(c).

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ONTARIO AND BRITISH COLUMBIA

AND

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

AND

IN THE MATTER OF
YAMANA RESOURCES INC.

AND

IN THE MATTER OF
MINERA YAMANA INC.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of Ontario and British Columbia (the "Jurisdictions") has received an application (the "Application") from Yamana Resources Inc. ("Yamana") and Minera Yamana Inc. ("Minera" and, together with Yamana, the "Applicants") for a decision under the securities legislation of the Jurisdictions (the "Legislation") that, in connection with a proposed indirect issuer bid by Yamana, the Applicants be exempted from the provisions of the Legislation relating to delivery of an offer and issuer bid circular and any notices of change or variation thereto, minimum deposit periods and withdrawal rights, take-up of and payment for securities tendered to an issuer bid, disclosure, restrictions upon purchases of securities, identical consideration and collateral benefits (collectively, the "Issuer Bid Requirements") and that the requirements contained in the British Columbia Legislation to file and obtain a receipt for a preliminary prospectus and a prospectus (the "Prospectus Requirement") shall not apply to first trades of such securities by the holders thereof (the "First Trades");

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Ontario Securities Commission (the "OSC") 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 Applicants have represented to the Decision Makers that:

1. Formerly Wiscan Resources Inc., Yamana was incorporated under the *Canada Business Corporations Act* on February 7, 1995. Its head office is located in Toronto, Ontario.

2. The authorized capital of Yamana consists of an unlimited number of Common Shares (the "Common Shares") and 8,000,000 First Preference Shares, Series 1 (the "Preference Shares"). As at March 27, 2003, 81,286,553 Common Shares and 6,760,000 Preference Shares were issued and outstanding.

3. Yamana is a reporting issuer or the equivalent under the securities legislation of every province of Canada (the "National Legislation") and is not in default of the National Legislation. The Common Shares are listed on the Toronto Stock Exchange ("TSX"). The Preference Shares are not listed on any stock exchange.

4. Minera was incorporated under the Ontario *Business Corporations Act* on March 17, 1994. Its head office is located in Toronto, Ontario.

5. The authorized capital of Minera consists of 100,000,000 Common Shares, of which 9,714,736 were issued and outstanding as at March 27, 2003, all of which are held by Yamana.

6. Minera is not a reporting issuer or the equivalent under the National Legislation.

7. The Preference Shares were originally issued in February 2001, to sophisticated purchasers in Canada pursuant to exemptions from the requirements contained in the Legislation to be

registered to trade (the "Registration Requirements") and the Prospectus Requirements of the Legislation, as well as to accredited investors pursuant to registration exemptions in the United States and to investors abroad. Each Preference Share was issued together with one share purchase warrant entitling the holder thereof to purchase one Common Share at a price of US$0.15 expiring on February 9, 2004 (a "Warrant").

8. There are a total of 25 holders of the Preference Shares ("Preference Shareholders"), all of whom deal with Yamana on an arm's length basis. Of such holders, one resides in British Columbia and one resides in London, England but holds his Preference Shares in an account with an address located in Ontario (collectively, the "Canadian Holders"). The Canadian Holders own an aggregate of approximately 11.5% of the issued and outstanding Preference Shares. Each of the Canadian Holders qualifies as an accredited investor under the relevant Legislation.

9. Pursuant to the rights and restrictions attached to the Preference Shares, such shares:

   (a) are non-voting;

   (b) bear cumulative dividends at the rate of US$0.0375 per share per annum as and when declared by the Directors out of "Available Cash Flow" as defined in the rights and restrictions and payable at the option of the holder in Common Shares;

   (c) are redeemable at the option of Yamana at a price of US$0.125 per share together with unpaid cumulative dividends, and they are mandatorily redeemable if Available Cash Flow exceeds the aggregate amount of dividends required to be declared, such that one-third of such excess shall be allocated to such mandatory redemption on a pro rata basis;

   (d) are convertible at the option of the holder into Common Shares at a prescribed ratio, presently one Common Share for each Preference Share; and

   (e) may be purchased for cancellation at the lowest price at which, in the opinion of the Directors, such shares are obtainable but not exceeding US$0.125 per share plus all unpaid cumulative dividends.

10. In the summer of 2002, Yamana proposed an alteration to its capital providing for the immediate conversion of the Preference Shares to Common Shares at an improved conversion ratio per Preference Share of 1.28205 Common Shares plus one Common Share for each US$.0975 of accrued and unpaid dividends (the "Capital Alteration"). Concurrently, Yamana proposed to alter the terms of the Warrants by reducing their exercise price to US$0.125 and extending their terms until December 31, 2004 (the "Warrant Amendment" and, together with the Capital Alteration, the "Proposed Conversion"). The Capital Alteration was approved by a written consent resolution signed by all the Preference Shareholders, and all of such holders also agreed to the Warrant Amendment in writing.

11. The Proposed Conversion was conditionally approved by the TSX on July 11, 2002.

12. Following such conditional approval, Yamana received advice from its Canadian tax advisor that the Preference Shareholders might receive improved tax treatment if, in lieu of the Proposed Conversion, Minera purchased the Preference Shares on the same terms. Therefore, in lieu of the Proposed Conversion, Yamana proposed a transaction (the "Proposed Purchase") under which Minera would purchase the Preference Shares on the same terms as under the Proposed Conversion.

13. The Proposed Purchase is a non-exempt issuer bid under the Legislation and must therefore comply with the Issuer Bid Requirements.

14. The Proposed Conversion would have qualified as an exempt issuer bid, as the Preference Shares would have been acquired in accordance with terms and conditions attaching thereto. However, the Applicants cannot now rely on this exemption from the Issuer Bid Requirements because of the change in structure occasioned by tax considerations.

15. The Applicants cannot rely on the "de minimis" exemption from the Issuer Bid Requirements in the Legislation because although there is only one Canadian Holder in each Jurisdiction, each of them holds over 2% of the outstanding Preference Shares in the respective Jurisdiction.

16. In order to gain the concurrence of all Preference Shareholders, Yamana was required to negotiate different consideration with two non-Canadian Preference Shareholders as follows:

   (a) one holder wishes to tender 50% of its Preference Shares pursuant to the terms of the Proposed Purchase and in exchange for the other 50% wishes to take a 2% net smelter return on a property in the Santa Cruz Province of Argentina; and

   (b) one holder wishes to tender its Preference Shares in exchange for a

convertible promissory note, payable in cash on or before October 1, 2003 and bearing interest at 15% from October 1, 2002. The conversion price is US$0.055 per share.

(the "Proposed Ancillary Purchase")

17. The terms of the Proposed Purchase have been conveyed to the Preference Shareholders and, other than the Preference Shareholders referred to in paragraph 16 above, they have accepted the terms thereof. However, the Proposed Purchase and the Proposed Ancillary Purchase have not been carried out.

18. All Preference Shareholders have voluntarily agreed to sell their Preference Shares. The Canadian Holders are aware of the differential treatment being accorded to the two Preference Shareholders under the Proposed Ancillary Purchase referred to in paragraph 16 above.

19. Each of the Preference Shareholders has agreed that the receipt of issuer bid materials from Yamana would be of no assistance to it in assessing the proposed transaction and, accordingly, would result in unnecessary expense to Yamana and that compliance with the other Issuer Bid Requirements would similarly be of no benefit to them.

20. No further approval from the TSX is required in connection with the Proposed Purchase.

21. The issuance of Common Shares to the Preference Shareholders upon the sale of the Preference Shares to Minera will be effected in reliance on exemptions from the Registration Requirements and the Prospectus Requirement of the Legislation.

22. The Canadian Holders have been advised of the Application and do not object to it.

23. Yamana has filed an annual information form and fulfils its other continuous disclosure obligations pursuant to the National Legislation such that current information about the business and affairs of Yamana is in the public domain.

24. As each Preference Shareholder is a sophisticated investor, he is able to assess the merits of the transaction without the need for protection from the Issuer Bid Requirements.

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:

1. the Proposed Purchase and the Proposed Ancillary Purchase are exempt from the Issuer Bid Requirements; and

2. in British Columbia, the Prospectus Requirement shall not apply to the first trade in Common Shares acquired pursuant to the Proposed Purchase and the Proposed Ancillary Purchase provided that the conditions in subsections (3) or (4) of section 2.6 of Multilateral Instrument 45-102 *Resale of Securities* are satisfied.

April 4, 2003.

"Paul M. Moore" "Theresa McLeod"

2.1.3 Contrans Income Fund - MRRS Decision

Headnote

Mutual Reliance Review System for Exemptive Relief Applications – open-end investment trust – trades of trust units to existing unit holders under a distribution reinvestment plan exempt from prospectus and registration requirements – trades of trust units to holders of limited partnership units under a distribution reinvestment plan exempt from prospectus and registration requirements – partnership units economic equivalent of trust units – relief subject to conditions.

Statues Cited

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

Multilateral Instruments Cited

Multilateral Instrument 45-102 Resale of Securities 24 OSCB 7029.

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

AND

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

AND

IN THE MATTER OF
CONTRANS INCOME FUND

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of the provinces of Ontario, Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Prince Edward Island, Québec and Saskatchewan and in each of the Northwest Territories, the Yukon and Nunavut (the "Jurisdictions") has received an application from Contrans Income Fund (the "Fund") for a decision pursuant to the securities legislation of the Jurisdictions (the "Legislation") that the requirement contained in the Legislation to be registered to trade in a security and to file and obtain a receipt for a preliminary prospectus and a prospectus (the "Registration and Prospectus Requirements") shall not apply to the distribution of subordinate voting trust units of the Fund (the "Units") pursuant to a distribution reinvestment plan (the "DRIP");

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 the Fund has represented to the Decision Makers that:

1. The Fund is an unincorporated, open-end limited purpose trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated as of April 16, 2002. The Fund was created for the purpose of acquiring and holding certain investments.

2. The only activity currently carried on by the Fund is the holding of units and notes of Contrans Operating Trust (the "Operating Trust"), a trust wholly-owned by the Fund.

3. The Fund is not a "mutual fund" as defined in the Legislation because the holders of Units (the "Unitholders") are not entitled to receive on demand an amount computed by reference to the value of a proportionate interest in the whole or in a part of the net assets of the Fund as contemplated in the definition of "mutual fund" in the Legislation.

4. The beneficial interests in the Fund are divided into interests of three classes designated as Units, non-transferable Series A special voting rights (the "Subordinate Voting Rights") and non-transferable Series B special voting rights (the "Multiple Voting Rights"). The Fund is authorized to issue an unlimited number of Units and Subordinate Voting Rights and a limited number of Multiple Voting Rights. As of March 31, 2003, 16,790,710, 5,464,182 and 1,467,724 Units, Subordinate Voting Rights and Multiple Voting Rights are issued and outstanding, respectively.

5. The Fund became a reporting issuer under the Legislation on July 15, 2002 when it obtained a Final Decision Document for its prospectus dated July 12, 2002. As of the date hereof, the Fund is not in default of any requirements under the Legislation.

6. The Units are listed and posted for trading on the Toronto Stock Exchange under the symbol "CSS.UN". The Subordinate Voting Rights and the Multiple Voting Rights are not listed or posted on any stock exchange.

7. The Fund makes distributions of its available cash to Unitholders and intends to make monthly cash distributions of substantially all of the amounts received by the Fund from the Operating Trust in each month. Cash distributions are payable monthly to Unitholders of record on the last business day of each month and are paid on or about the 15th day of the following month.

8. Contrans Holding Limited Partnership (the "Partnership") is a limited partnership formed under the laws of the Province of Ontario.

9. The Partnership is authorized to issue three classes of partnership interests, Class A, B and C limited partnership units (collectively, the "Partnership Units").

10. The Partnership is not a reporting issuer (or its equivalent) in any of the Jurisdictions and there is no intention for the Partnership to become a reporting issuer (or its equivalent).

11. The Partnership Units are not listed or posted for trading on any stock exchange.

12. Partnership Units are intended to be, to the greatest extent practicable, the economic equivalent of the Units and were initially created solely for Canadian tax purposes. Holders of Partnership Units (the "Partnership Unitholders") are entitled to receive distributions paid by the Partnership, which distributions are equal, to the greatest extent practicable, to distributions paid by the Fund to Unitholders. Partnership Units are exchangeable for an equal number of Units at any time and are required to be exchanged for an equal number of Units in certain circumstances.

13. Cash distributions are payable monthly to Partnership Unitholders of record on the last business day of each month and will be paid on or about the 15th day of the following month.

14. The Fund intends to establish the DRIP pursuant to which all Unitholders and Partnership Unitholders (other than United States residents) may, at their option, invest cash distributions paid on their Units and Partnership Units in additional Units (the "Plan Units") as an alternative to receiving cash distributions. The DRIP will not be available to Unitholders and Partnership Unitholders who are resident in the United States.

15. The DRIP will also enable Unitholders and Partnership Unitholders to make additional cash investments through optional cash payments ("Optional Cash Payments") which will be invested in Plan Units on the same basis as the distributions which are invested under the DRIP (except as to price), and any Unitholder or Partnership Unitholder may participate by way of Optional Cash Payments. The Fund may impose limitations on the maximum amount of Optional Cash Payments in any financial year of the Fund to ensure that the number of Plan Units issued pursuant to the Optional Cash Payments does not exceed two percent of the aggregate number of Units and Partnership Units outstanding at the commencement of that financial year.

16. Cash distributions due to participants in the DRIP (the "DRIP Participants") will be paid to Computershare Trust Company of Canada in its capacity as agent under the DRIP (in such capacity, the "DRIP Agent") and applied to purchase Plan Units. All Plan Units purchased under the DRIP will be purchased by the DRIP Agent directly from the Fund. No commissions, service charges or brokerage fees will be payable by DRIP Participants in connection with the DRIP.

17. The price of Plan Units purchased with such cash distributions will be 95% of the weighted average trading price of the Units on the TSX for the ten trading days immediately preceding a distribution payment date.

18. The price of Plan Units purchased with Optional Cash Payments will be the weighted average trading price of the Units on the TSX for the ten trading days immediately preceding a distribution payment date.

19. Where applicable, Participants will receive either fractional Plan Units or a cash equivalent payment in lieu of such fractional Plan Units.

20. Cash distributions in respect of Plan Units purchased under the DRIP will be held by the DRIP Agent for the DRIP Participant's account and automatically invested under the DRIP in Plan Units.

21. Plan Units purchased under the DRIP for those DRIP Participants whose Units or Partnership Units are not held by The Canadian Depository for Securities Limited will be registered in the name of the DRIP Agent, as agent for the DRIP Participants.

22. DRIP Participants may terminate their participation in the DRIP at any time by written notice to the DRIP Agent and the Fund at least ten business days before a distribution record date. Such notice, if actually received at least ten business days before a distribution record date, will have effect for such distribution payment date. Thereafter, distributions payable to such Unitholders or Partnership Unitholders will be made in the customary manner.

23. The Fund may amend, suspend or terminate the DRIP at any time, provided that such action shall not have a retroactive effect which would prejudice the interests of the DRIP Participants. All DRIP Participants will be sent written notice of any such amendment, suspension or termination at least ten business days before the effective date of such amendment, suspension or termination.

24. The distribution of the Plan Units by the Fund pursuant to the DRIP cannot be made in reliance

on certain registration and prospectus exemptions contained in the Legislation as the DRIP involves the reinvestment of income distributed by the Fund and the Partnership and not the reinvestment of dividends or interest of the Fund and the Partnership.

25. The distribution of the Plan Units by the Fund pursuant to the DRIP cannot be made in reliance on registration and prospectus exemptions contained in the Legislation for distribution reinvestment plans of mutual funds, as the Fund is not a "mutual fund" as defined in the Legislation because the Unitholders are not entitled to receive on demand an amount computed by reference to the value of a proportionate interest in the whole or in a portion of the net assets of the Fund;

AND WHEREAS under 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 Makers with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers pursuant to the Legislation is that the trades of Plan Units by the Fund to the DRIP Participants, including the Partnership Unitholders, pursuant to the DRIP shall not be subject to the Registration and Prospectus Requirements of the Legislation, provided that:

(a) at the time of the trade the Fund is a reporting issuer or the equivalent under the Legislation and is not in default of any requirements of the Legislation;

(b) no sales charge is payable by DRIP Participants in respect of the trade;

(c) the Fund has caused to be sent to the person or company to whom the Plan Units are traded, not more that 12 months before the trade, a statement describing:

(i) their right to withdraw from the DRIP and to make an election to receive cash instead of Plan Units on the making of a distribution of income by the Fund or the Partnership; and

(ii) instructions on how to exercise the right referred to in (1);

(d) in the financial year during which the trade takes place, the aggregate number of Plan Units issued pursuant to the Optional Cash Payments shall not exceed two percent of the aggregate number of Units and Partnership Units outstanding at the commencement of such financial year;

(e) except in Québec, the first trade or resale of Plan Units acquired pursuant to the Plan in a Jurisdiction shall be deemed to be a distribution or primary distribution to the public under the Legislation unless the conditions set out in paragraphs 1 through 5 of subsection 2.6(3) of Multilateral Instrument 45 – 102 *Resale of Securities* are satisfied at the time of such first trade or resale; and

(f) in Québec, the first trade (alienation) of Plan Units acquired pursuant to the Plan shall be deemed to be a distribution or primary distribution to the public unless:

(i) at the time of the first trade, the Fund is a reporting issuer in Québec and is not in default on any of the requirements of securities legislation in Québec;

(ii) no unusual effort is made to prepare the market or to create a demand for the Plan Units;

(iii) no extraordinary commission or consideration is paid to a person or company other than the vendor of the Plan Units in respect of the first trade; and

(iv) the vendor of the Plan Units, if in a special relationship with the Fund, has no reasonable grounds to believe that the Fund is in default of any requirement of the securities legislation in Québec.

April 15, 2003.

"Paul M.Moore" "Lorne Morphy"

2.1.4 All-Canadian Management Inc. - Director's Decision

IN THE MATTER OF
SECTION 139 OF R.R.O. 1990, REGULATION 1015
MADE UNDER THE SECURITIES ACT (ONTARIO)

AND

IN THE MATTER OF
ALL-CANADIAN MANAGEMENT INC.

HEARD ON: April 17, 2003

HEARD AT: Ontario Securities Commission
20 Queen Street West
18th Floor
Toronto, Ontario

HEARD BEFORE: Marrianne Bridge
Manager, Compliance
Capital Markets

DIRECTOR'S DECISION

By letter dated April 9, 2003, I, as Manager, Compliance, advised the registrant, All-Canadian Management Inc., that the Ontario Securities Commission (the "Commission") had not received the registrant's annual audited financial statements for the year ended December 31, 2003. The registrant was advised that staff was of the view that its registration as a mutual fund dealer and investment counsel/portfolio manager should be restricted by the imposition of terms and conditions (as attached to the letter). In the April 9, 2003 letter, the registrant was asked to advise staff whether it accepted the terms and conditions outlined in the letter. If not, the registrant was advised that it could avail itself of the opportunity to be heard by a Director pursuant to section 26(3) of the Act. If the registrant intended to exercise this opportunity, it was asked to provide written notice to the Manager, Compliance. By letter dated April 11, 2003, the registrant provided its formal request for the Commission to remove the proposed terms and conditions for the following reasons:

1. In past years, the registrant's fiscal year end was March 31. As a result, the registrant has been accustomed to filing its annual financial statements in June for the better part of the past 15 years.

2. The registrant's annual financial statements have been ready since mid-February. Upon receiving staff's April 9 letter, the registrant immediately contacted the Financial Analyst, Compliance and made arrangements for the filing of its financial statements and the applicable late fees.

3. In the past, the registrant has filed its financial statements on time and this is the first time the registrant has been late.

In staff's opinion, the reasons do not outweigh the need to impress upon this and other registrants the importance of complying with the filing requirement and terms and conditions therefore should be imposed on its registration. The filing of annual financial statements by registrants is one of the most serious regulatory requirements in the Act. Financial solvency is one of the essential components of a dealer or adviser's continued suitability for registration. Financial statements are the principal tool enabling staff to monitor a registrant's financial viability and its capital position. As a result, the late filing (or non-filing) of annual financial statements raises serious potential regulatory concerns and needs to be addressed in a serious fashion.

On the basis of all written submissions presented to me and after having reviewed them, it is my decision that the registration of All-Canadian Management Inc. should be restricted by the terms and conditions outlined in the April 9, 2003 letter.

April 17, 2003.

"Marrianne Bridge"

2.1.5 Greystone Managed Investments Inc. - Director's Decision

IN THE MATTER OF
SECTION 139 OF R.R.O. 1990, REGULATION 1015
MADE UNDER THE SECURITIES ACT (ONTARIO)

AND

IN THE MATTER OF
GREYSTONE MANAGED INVESTMENTS INC.

HEARD ON: April 17, 2003

HEARD AT: Ontario Securities Commission
20 Queen Street West
18th Floor
Toronto, Ontario

HEARD BEFORE: Marrianne Bridge
Manager, Compliance
Capital Markets

DIRECTOR'S DECISION

By letter dated April 9, 2003, I, as Manager, Compliance, advised the registrant, Greystone Managed Investments Inc., that the Ontario Securities Commission (the "Commission") had not received the registrant's annual audited financial statements for the year ended December 31, 2003. The registrant was advised that staff was of the view that its registration as a extra provincial limited market dealer conditional and investment counsel/portfolio manager should be restricted by the imposition of terms and conditions (as attached to the letter). In the April 9, 2003 letter, the registrant was asked to advise staff whether it accepted the terms and conditions outlined in the letter. If not, the registrant was advised that it could avail itself of the opportunity to be heard by a Director pursuant to section 26(3) of the Act. If the registrant intended to exercise this opportunity, it was asked to provide written notice to the Manager, Compliance. The annual financial statements were filed by Greystone by letter dated April 9, 2003 (received by the Commission on April 10, 2003).

By letter dated April 16, 2003, the registrant provided its formal request for the Commission to remove the proposed terms and conditions for the following reason:

1. Although the financial statements were completed within the requisite filing period, an administrative error resulted in the filing of the statements with the various securities regulators on April 10, 2003.

The registrant goes on to say that "Despite the delay in our filing, we do not feel that there has been any prejudice to any regulator or member of the public in the Province of Ontario or elsewhere. Indeed, we feel that the late filing fee that we have paid should be viewed as sufficient for our filing oversight and is consistent with the treatment in other jurisdictions. Given the strength of Greystone's financial position and, we believe, our record and reputation for good compliance practices, the additional administrative filing proposed in your additional terms and conditions is unnecessarily onerous for the purpose of protecting the public interest."

In staff's opinion, the reason and arguments do not outweigh the need to impress upon this and other registrants the importance of complying with the filing requirement and terms and conditions therefore should be imposed on its registration. The filing of annual financial statements by registrants is one of the most serious regulatory requirements in the Act. Financial solvency is one of the essential components of a dealer or adviser's continued suitability for registration. Financial statements are the principal tool enabling staff to monitor a registrant's financial viability and its capital position. As a result, the late filing (or non-filing) of annual financial statements raises serious potential regulatory concerns and needs to be addressed in a serious fashion.

On the basis of all written submissions presented to me and after having reviewed them, it is my decision that the registration of Greystone Managed Investments Inc. should be restricted by the terms and conditions outlined in the April 9, 2003 letter.

April 17, 2003.

"Marrianne Bridge"

2.1.6 TP Financial Advisers, Inc. - Director's Decision

IN THE MATTER OF
SECTION 139 OF R.R.O. 1990, REGULATION 1015
MADE UNDER THE SECURITIES ACT (ONTARIO)

AND

IN THE MATTER OF
TP FINANCIAL ADVISERS, INC.

HEARD ON: April 17, 2003

HEARD AT: Ontario Securities Commission
20 Queen Street West
18th Floor
Toronto, Ontario

HEARD BEFORE: Marrianne Bridge
Manager, Compliance
Capital Markets

DIRECTOR'S DECISION

By letter dated April 9, 2003, I, as Manager, Compliance, advised the registrant, TP Financial Advisers, Inc., that the Ontario Securities Commission (the "Commission") had received the registrant's annual audited financial statements for the year ended December 31, 2003 on April 8, 2003, six business days after they were due (It was subsequently determined that the financial statements had been filed by telecopy on April 4, 2003, four business days after they were due). The registrant was advised that staff was of the view that its registration as a investment counsel/portfolio manager should be restricted by the imposition of terms and conditions (as attached to the letter). In the April 9, 2003 letter, the registrant was asked to advise staff whether it accepted the terms and conditions outlined in the letter. If not, the registrant was advised that it could avail itself of the opportunity to be heard by a Director pursuant to section 26(3) of the Act. If the registrant intended to exercise this opportunity, it was asked to provide written notice to the Manager, Compliance. By letter dated April 15, 2003, the registrant provided its formal request for the Commission to remove the proposed terms and conditions for the following reason:

1. The 6 day filing delay was due to a delay in the completion of its annual financial statements by its auditors, KPMG. KPMG indicated that the transition of the audit from the former auditors, Arthur Anderson, took more time than they expected.

In staff's opinion, the reason does not outweigh the need to impress upon this and other registrants the importance of complying with the filing requirement and terms and conditions therefore should be imposed on its registration. The filing of annual financial statements by registrants is one of the most serious regulatory requirements in the Act. Financial solvency is one of the essential components of a dealer or adviser's continued suitability for registration. Financial statements are the principal tool enabling staff to monitor a registrant's financial viability and its capital position. As a result, the late filing (or non-filing) of annual financial statements raises serious potential regulatory concerns and needs to be addressed in a serious fashion.

On the basis of all written submissions presented to me and after having reviewed them, it is my decision that the registration of TP Financial Advisers, Inc. should be restricted by the terms and conditions outlined in the April 9, 2003 letter.

April 17, 2003.

"Marrianne Bridge"

2.1.7 PFSL Investments Canada Ltd. - 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
ALBERTA, ONTARIO, NOVA SCOTIA AND
NEWFOUNDLAND AND LABRADOR

AND

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

AND

IN THE MATTER OF
THE FUNDS LISTED IN SCHEDULE "A"
(the "Funds")

MRRS DECISION DOCUMENT

WHEREAS the Canadian securities regulatory authority or regulator (the "Decision Maker") in each of the Provinces of Alberta, Ontario, Nova Scotia and Newfoundland and Labrador (the "Jurisdictions") has received an application (the "Application") from PFSL Investments Canada Ltd. (the "Manager") and the Funds for a decision pursuant to the securities legislation 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 Quebec 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 governed by the laws of Ontario.

(b) The Manager acts as manager of the Funds set out in Schedule "A" and is the trustee of such Funds.

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

(d) Securities 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 November 27, 2002.

(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.

(f) The Manager will send to Securityholders who hold securities of the Funds in client name where the manager is the dealer (the “Direct Securityholders”) a notice advising them that they will not receive the annual financial statements of the Funds for the year ending December 31, 2002 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 annual financial statements can be found on the SEDAR website and downloaded. The Manager would send such financial statements to any Securityholder who requests them in response to such notice or who subsequently requests them by request on a toll-free number.

(g) All Securityholders hold their securities in the Funds directly.

(h) Securityholders will be able to access annual financial statements of the Funds either on the SEDAR website or by calling the Manager's toll-free phone line. Top ten holdings, which are updated on a periodic basis, will also be accessible to Securityholders by calling the Manager's toll-free phone line.

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

(j) The Canadian Securities Administrators ("CSA") have published for comment proposed National Instrument 81-106 ("NI 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) NI 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 the Funds shall not be required to deliver their comparative annual financial statements for the year ended 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 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 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.

April 21, 2003.

“Paul M. Moore” “H. Lorne Morphy”

SCHEDULE "A" to MRRS DECISION DOCUMENT

LIST OF FUNDS

Primerica Canadian Aggressive Growth Portfolio Fund
Primerica International Aggressive Growth Portfolio Fund
Primerica Canadian High Growth Portfolio Fund
Primerica International High Growth Portfolio Fund
Primerica Canadian Growth Portfolio Fund
Primerica International Growth Portfolio Fund
Primerica Canadian Balanced Portfolio Fund
Primerica Canadian Conservative Portfolio Fund
Primerica Canadian Income Portfolio Fund
Primerica International RSP Aggressive Growth Portfolio Fund
Primerica Canadian Money Market Portfolio Fund

2.1.8 Kinross Gold Corporation - MRRS Decision

Headnote

Filer is exempt from the requirements contained in subsection 4.2(4) of NI 43-101 that the Filer file, not later than 30 days after the date of issuance of a press release, current technical reports in compliance with NI 43-101 relating to certain mining properties that the Filer has recently acquired, provided that such reports are filed not later than 60 days after the issuance of the press release. The engineering reports prepared in support of the reserve information disclosed in the press release are in Portuguese and Spanish and are in the process of being translated into English.

Rules Cited

National Instrument 43-101 - Standards of Disclosure for Mineral Projects, subsections 4.2(4) and 9.1(1).

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

AND

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

AND

IN THE MATTER OF
KINROSS GOLD CORPORATION

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker", and collectively, the "Decision Makers") in each of Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, Quebec and Saskatchewan (the "Jurisdictions") has received an application (the "Application") from Kinross Gold Corporation (the "Filer") for a decision under subsection 9.1(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 subsection 4.2(4) of NI 43-101 that the Filer file, not later than 30 days after the date of issuance of the Press Release (as defined herein), current technical reports in compliance with NI 43-101 (the "Reports") relating to certain mining properties that the Filer has recently acquired, provided that such reports are filed not later than 60 days after the issuance of the Press Release;

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

"System"), Ontario is the principal jurisdiction 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 the continuing corporation resulting from a May 1993 amalgamation under the *Business Corporations Act* (Ontario), and further amalgamations on December 31, 1993 and December 29, 2000. The Filer's principal place of business is located in Toronto, Ontario.

2. The Filer is a reporting issuer in Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland, Nova Scotia, Ontario, Prince Edward Island, Quebec and Saskatchewan and the Filer is not in default of the securities laws of the Jurisdictions.

3. The authorized capital of the Filer consists of an unlimited number of common shares and 384,613 redeemable retractable preferred shares, of which 314,494,816 common shares and 384,613 preferred shares were issued and outstanding as of March 3, 2003. The Filer has also issued convertible debentures in the aggregate principal amount of $195.6 million.

4. The common shares of the Filer are listed and posted for trading on the Toronto Stock Exchange and the New York Stock Exchange, and the convertible debentures of the Filer are listed and posted for trading on the Toronto Stock Exchange.

5. The Filer is engaged in the mining and processing of gold and silver ore and in the exploration for and acquisition and development of gold bearing properties, principally in Canada, the United States, Russia, Chile, Brazil, Greece and Zimbabwe.

6. The Filer has acquired (a) by way of plan of arrangement (the "Arrangement") completed on January 31, 2003 all of the outstanding common shares of each of TVX Gold Inc. ("TVX") and Echo Bay Mines Ltd.; and (b) completed the acquisition through TVX of the interest of Newmont Mining Corporation ("Newmont") in the TVX Newmont Americas joint venture that Newmont was engaged in with TVX (these transactions are collectively referred to as the "Transactions").

7. On June 17, 2002, the Filer obtained a decision from the Decision Makers exempting the Filer from the technical report requirements of paragraph 4.2(1)3 of NI 43-101 in connection with the filing of the management circular prepared for the shareholders of the Filer in connection with the Arrangement.

8. TVX was originally incorporated under the laws of British Columbia in February 1980, was continued under the laws of Ontario on October 31, 1984 and was continued under the *Canada Business Corporations Act* on January 7, 1991. As part of the Arrangement, TVX was amalgamated with a wholly owned subsidiary of the Filer to continue as TVX Gold Inc.

9. TVX was a reporting issuer in all of the provinces and territories of Canada prior to the Transactions.

10. Upon the completion of the Transactions, the Filer became the indirect owner of interests in various mining properties, including the interests of TVX and Newmont in three material mining properties to the Filer, namely, the Brasilia property (Brazil), the La Coipa property (Chile) and the Crixás property (Brazil) (collectively referred to as the "New Material Properties").

11. On March 4, 2003, the Filer issued a press release (the "Press Release") which outlined reserve information regarding the New Material Properties.

12. Subsection 4.2(4) of NI 43-101 requires an issuer to file a current Report to support material information contained in a press release, describing mineral projects on a property material to the issuer not later than 30 days after the disclosure.

13. The engineering reports prepared in support of the reserve information disclosed in the Press Release are in Portuguese and Spanish and are in the process of being translated into the English language.

14. Due to the time delay caused by the required translation of the engineering reports, the Filer does not anticipate to be able to complete and file the Reports required under NI 43-101 to support the reserve information disclosed regarding the New Material Properties within the 30 day period required by 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 is that the Filer is exempt from the requirements contained in subsection 4.2(4) of NI 43-101 that the Filer file, not later than 30 days after the date of issuance of the Press

Release, current Reports relating to the New Material Properties, provided however, that such Reports are filed not later than 60 days after the issuance of the Press Release.

April 4, 2003.

"Margo Paul"

2.2 Orders

2.2.1 Imaflex Inc. - cl. 104(2)(c)

Headnote

Relief from issuer bid requirements – Applicant issued 1,500,000 of its class A common shares ("Class A Shares") to a private company as consideration for 35% of the share capital of a target company pursuant to a share purchase agreement – 1,000,000 of the Class A Shares (the "Escrowed Shares") were held in escrow – 250,000 of the Escrowed Shares would be returned to the Applicant as a reduction of the purchase price if the target company did not meet certain profit thresholds – target company failed to meet profit thresholds – the terms of the escrow agreement required the payment of $1.00 before the 250,000 Escrowed Shares could be returned to the Applicant and therefore qualified as an issuer bid – the transaction is analogous to 93(3)(a) of the Act as the acquisition is accordance with the terms and conditions of the share purchase agreement and the escrow agreement, which do not require the prior agreement of the owner of the securities – if the bid was extended to all holders of Class A Shares, those holders would receive an offer of $0.000004 per share while such shares are trading at $0.23 per share – relief granted.

Applicable Ontario Statutory Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 93(3), 95-98, 100 and 104(2)(c).

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

AND

IN THE MATTER OF
IMAFLEX INC.

ORDER
(Clause 104(2)(c) of the Act)

UPON the application of Imaflex Inc. (the "Applicant") to the Ontario Securities Commission (the "Commission") for a for an order pursuant to clause 104(2)(c) of the Act that the Applicant be exempt from the requirements of sections 95-98 and section 100 of the Act (the "Issuer Bid Requirements") in connection with the Proposed Acquisition (as described in paragraph 14 below);

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

AND UPON the Applicant having represented to the Commission that:

1. The Applicant is a body corporate incorporated under the *Canada Business Corporations Act* pursuant to articles of amalgamation dated February 1, 1999.

2. The Applicant's head office is located in Montreal, Quebec.

3. The Applicant is a reporting issuer in Alberta and British Columbia and is not in default of any requirement under the *Securities Act* (Alberta) or the *Securities Act* (British Columbia).

4. The authorized capital of the Applicant consists of an unlimited number of Class A Shares (the "Class A Shares"), an unlimited number of Class B Shares and an unlimited number of convertible Class B Series 1, of which 31,784,646 Class A Shares are issued and outstanding.

5. The Class A Shares are listed on the TSX Venture Exchange (the "TSX-V"). The closing price of the Class A Shares on the TSX-V on April 9, 2003 was $0.23.

6. The business of the Applicant consists of the manufacture and sale of custom-made polyethylene films for various packaging needs.

7. The Applicant entered into a share purchase agreement (the "Share Purchase Agreement"), dated March 29, 2001, with Poli-Bram Limited ("Poli-Bram"), a private arm's length corporation.

8. The Share Purchase Agreement provided that the Applicant would issue 1,500,000 Class A Shares to Poli-Bram as consideration for the purchase of 35% of the outstanding share capital of Canslit Inc. ("Canslit") from Poli-Bram.

9. Concurrent with the transaction with Poli-Bram, the Applicant also acquired the remaining 65% of the outstanding share capital of Canslit, and Canslit became a wholly-owned subsidiary of the Applicant and remains so at the present time.

10. Each of the 1,500,000 Class A Shares issued to Poli-Bram was issued at a price of $0.25, representing a total value of $375,000.

11. Of the 1,500,000 Class A Shares issued to Poli-Bram, 1,000,000 were placed in escrow (the "Escrow Shares") with Montreal Trust Company (now Computershare Trust Company of Canada) as escrow agent (the "Escrow Agent") pursuant to an escrow agreement (the "Escrow Agreement") between Poli-Bram, the Applicant and the Escrow Agent dated March 29, 2001.

12. Pursuant to the Share Purchase Agreement and the Escrow Agreement, if Canslit did not meet a profit threshold of an amount equal to a net profit after tax of at least 4% during the fiscal year ended December 31, 2002, the Escrow Agent is

obligated to return 250,000 of the Escrow Shares to the Applicant.

13. Because of concerns regarding the sufficiency of consideration, the Escrow Agreement requires the Applicant to make an aggregate payment of $1.00 as consideration for the 250,000 Escrow Shares.

14. The financial statements for the 2002 fiscal year show that Canslit did not meet the required threshold. Therefore, upon receipt of $1.00 from the Applicant, the Escrow Agent must deliver to the Applicant 250,000 Escrow Shares (the "Proposed Acquisition").

15. The Proposed Acquisition is an issuer bid as defined in subsection 89(1) of the Act and is not an exempt issuer bid under subsection 93(3) of the Act.

16. Although the Proposed Acquisition is not an exempt issuer bid under subsection 93(3) of the Act, the securities are being acquired in accordance with the terms and conditions of the Share Purchase Agreement and the Escrow Agreement, which were negotiated between arm's length parties. Such terms and conditions permit the Applicant to proceed with the Proposed Acquisition without the prior agreement of the owner of the securities, Poli-Bram. This is analogous to the situation contemplated by paragraph 93(3)(a) of the Act, which provides that an issuer bid is an exempt issuer bid if securities are being acquired pursuant to the terms and conditions attaching thereto that permit the acquisition without the prior agreement of the owners of the securities.

17. The total consideration being paid to Poli-Bram is $1.00. As a result, if the Applicant were to extend the Proposed Acquisition to all holders of Class A Shares in Ontario, those holders would receive an offer of only $0.000004 per share, although such shares are trading at $0.23 on the TSX-V (as of closing April 9, 2003).

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

IT IS ORDERED pursuant to clause 104(2)(c) of the Act that the Applicant is exempt from the Issuer Bid Requirements of the Act in connection with the Proposed Acquisition.

April 15, 2003.

"Derek Brown" "Paul M. Moore"

2.2.2 ARC International plc and WestLB Panmure Ltd. - cl. 104(2)(c)

Headnote

Cash "Dutch Auction" issuer bid made in Ontario in two stages - First stage of issuer bid is technically take-over bid by investment advisor of issuer - Second stage could be construed as indirect issuer bid in Ontario - Issuer bid made in accordance with the laws of the United Kingdom, the rules and regulations of the London Stock Exchange and the Listing Rules of the UK Listing Authority - Issuer bid exempted from the issuer bid and take-over bid requirements of Part XX, subject to certain conditions.

Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as amended, ss. 93(1)(e), 93(3)(h), 95 to 100 and 104(2)(c).

Recognition Orders Cited

In the Matter of the Recognition of Certain Jurisdictions (Clauses 93(1)(e) and 93(3((h) of Act) (1997) 20 OSCB 1035.

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

AND

IN THE MATTER OF
ARC INTERNATIONAL PLC AND
WESTLB PANMURE LIMITED

ORDER
(Clause 104(2)(c))

UPON the application (the "**Application**") of ARC International plc ("**ARC**") and WestLB Panmure ("**WestLB**") to the Ontario Securities Commission (the "**Commission**") for an order pursuant to clause 104(2)(c) of the Act exempting ARC and WestLB from the requirements of sections 95 through 100 of the Act (the "**Issuer Bid and Take-over Bid Requirements**") in connection with a proposed return of capital by ARC to the holders of ARC ordinary shares (the "**ARC Shares**") through a tender offer (the "**Offer**"), whereby WestLB will purchase through the facilities of London Stock Exchange plc (the "**LSE**"), as principal, issued and outstanding ARC Shares and, immediately thereafter, ARC will purchase through the facilities of the LSE from WestLB, for cancellation, the ARC Shares so purchased by WestLB;

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

AND UPON ARC and WestLB having represented to the Commission that:

1. ARC is a company incorporated under the laws of England and Wales and the ARC Shares are listed on the Official List of the UK Listing Authority and traded on the LSE's market for listed securities.

2. ARC is not a reporting issuer under the securities legislation of any province or territory of Canada and none of the ARC Shares are listed for trading on any Canadian stock exchange.

3. As at March 10, 2003, ARC had 300,473,184 ARC Shares issued and outstanding.

4. WestLB is regulated in the United Kingdom by The Financial Services Authority Limited and is acting exclusively for ARC in connection with the Offer. WestLB is not a registrant under the securities legislation of any province or territory of Canada.

5. The Board of Directors of ARC publicly announced on November 22, 2002 that it believed ARC had more than sufficient working capital funding to bring the ARC Group of Companies to profitability on the basis of reasonably prudent assumptions and that it was proposed to return £50 million of capital to holders of ARC Shares ("**Shareholders**") during the first half of 2003 in order to optimise ARC's capital structure and hence Shareholders' potential for future returns. The Board publicly announced on December 6, 2002 that it believed that the Offer would be the most effective way of returning capital to Shareholders.

6. The Offer is an all-cash offer and will be implemented in two stages (although the LSE procedures and relevant stamp duty regime allow it to be treated as if it were a unified market transaction). Under the terms of the Offer, WestLB will purchase at the Strike Price (as defined in paragraph 8(c) below), as principal, issued and outstanding ARC Shares for up to a total consideration of £48.5 million (less the costs of the Offer). Immediately following the purchase of ARC Shares by WestLB, it will sell through the facilities of the LSE the ARC Shares purchased by it to ARC, also at the Strike Price. ARC will then cancel such ARC Shares. ARC also intends to make a loan of £1.5 million to the trustees of its employee benefit trust ("**EBT Trustees**") to enable the EBT Trustees to buy ARC Shares through the facilities of the LSE for use in covering option grants ("**EBT Market Purchases**"). The Offer and the EBT Market Purchases together constitute the return of £50 million of capital to Shareholders.

7. On March 7, 2003, resolutions were passed at ARC's Extraordinary General Meeting authorizing, *inter alia*, the reduction of ARC's share premium account (subject to confirmation by the Courts of England and Wales) so as to create sufficient distributable profits within ARC (as required by English company law) to enable the making of the Offer.

8. The Offer will be made according to a modified Dutch auction procedure as follows:

   (a) ARC Shares may be tendered in a price range which will be set with reference to the average middle market price of an ARC Share for the ten business days ending on the business day prior to the mailing of the circular in connection with the Offer, such mailing expected to take place in on or about May 8, 2003 (the "**Price Range**"). ARC Shares may only be tendered within the Price Range but Shareholders may tender their ARC Shares at different prices within the Price Range.

   (b) In the alternative, Shareholders may elect to tender their ARC Shares at the Strike Price (as defined below).

   (c) The strike price (the "**Strike Price**") payable for ARC Shares, which will be determined at the conclusion of the Offer on the basis of the prices at which ARC Shares have been tendered, will be the lowest price per ARC Share (within the Price Range) which will allow WestLB to purchase the maximum number of ARC Shares for an aggregate purchase price not exceeding £48.5 million (less the costs of the Offer) in accordance with the order of priority fixed for the Offer.

   (d) All ARC Shares validly acquired by WestLB under the Offer, whether tendered at a specified price equal to or below the Strike Price or elected to be tendered at the Strike Price, will be purchased at the Strike Price.

   (e) If the aggregate consideration to be paid for all ARC Shares tendered is £48.5 million (less the costs of the Offer) or less, all ARC Shares validly tendered will be purchased. If the aggregate price under the Offer for all ARC Shares tendered at or below the Strike Price exceeds £48.5 million (less the costs of the Offer), all tenders at or below the Strike Price will be scaled down in the order of priority fixed for the Offer such that the total price of ARC Shares purchased pursuant to the Offer does not exceed £48.5 million (less the costs of the Offer).

   (f) Tenders above the Strike Price will be rejected.

9. The Offer is being made in compliance with the laws of the United Kingdom, the rules and regulations of the LSE and the Listing Rules of the UK Listing Authority, and not pursuant to any exemption from such requirements.

10. While ARC, as a UK public company, is at all times subject to the City Code on Take-overs and Mergers (the "**City Code**"), the City Code does not apply specifically to the conduct of the Offer.

11. As at March 10, 2003, there were only twenty-two (22) Shareholders whose last address, as shown on the books of ARC, is in Ontario (collectively, the "**Ontario ARC Shareholders**"), holding, in the aggregate, 59,550 ARC Shares, representing less than 0.02% of the issued and outstanding ARC Shares.

12. The Offer is being made on the same terms and conditions to the Ontario ARC Shareholders as it is being made to Shareholders resident in the United Kingdom.

13. Insofar as the Offer is made to the Ontario ARC Shareholders, the Offer may be a take-over bid within the meaning of subsection 89(1) of the Act.

14. Insofar as the Offer is made to the Ontario ARC Shareholders, the Offer may also be construed as an indirect issuer bid within the meaning of subsection 89(1) of the Act and section 92 of the Act.

15. Although the Commission has recognized the United Kingdom for the purposes of clauses 93(1)(e) and 93(3)(h) of the Act where the take-over bid or issuer bid complies with the requirements of the rules of the City Code and is not exempt therefrom, ARC and WestLB cannot rely upon the exemption in clause 93(1)(e) and 93(3)(h) from the Issuer Bid and Take-over Bid Requirements because the City Code does not apply specifically to the Offer.

16. All materials relating to the Offer which are provided to Shareholders resident in the United Kingdom will be concurrently sent to the Ontario ARC Shareholders and filed with the Commission.

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

IT IS ORDERED pursuant to clause 104(2)(c) of the Act that in connection with the Offer, ARC and WestLB are exempted from the Issuer Bid and Take-over Bid Requirements, provided that:

(a) the Offer and any amendments thereto are made in compliance with the laws of the United Kingdom, the rules and regulations of the LSE and the Listing Rules of the UK Listing Authority, and not pursuant to an exemption from such requirements; and

(b) all materials relating to the Offer and any amendments thereto that are sent by or on behalf of ARC and WestLB to Shareholders resident in the United Kingdom are also concurrently sent to the Ontario ARC Shareholders and copies of such materials filed with the Commission.

April 15, 2003.

"Paul M. Moore" "Theresa McLeod"

2.2.3 Anaconda Gold Corp. - ss. 83.1(1)

Headnote

Reporting issuer in Alberta and British Columbia that is listed on TSX Venture Exchange deemed to be a reporting issuer for the purposes of Ontario securities law.

Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as am., s. 83.1(1).

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

AND

IN THE MATTER OF
ANACONDA GOLD CORP.

ORDER
(Subsection 83.1(1))

UPON the application of Anaconda Gold Corp. ("Anaconda") for an order pursuant to subsection 83.1(1) of the Act deeming Anaconda to be a reporting issuer for the purposes of Ontario securities law;

AND UPON considering the application and the recommendation of the staff of the Ontario Securities Commission (the "Commission");

AND UPON Anaconda representing to the Commission as follows:

1. Anaconda is a corporation continued under the *Business Corporations Act* (Ontario).

2. Anaconda's head office is located in Toronto, Ontario. The majority of its directors reside in Ontario and its principal properties are located in Ontario

3. Anaconda has been a reporting issuer under the *Securities Act* (British Columbia) (the "BC Act") since August 25, 1995 and under the *Securities Act* (Alberta) (the "Alberta Act") since November 26, 1999.

4. Anaconda's common shares are listed on the TSX Venture Exchange under the trading symbol "ANX".

5. Anaconda is not in default under the BC Act or the Alberta Act.

6. The continuous disclosure requirements of the BC Act and the Alberta Act are substantially the same as the requirements under the Act.

7. The continuous disclosure materials filed by Anaconda under the BC Act and the Alberta Act are available on the System for Electronic Document Analysis Retrieval (SEDAR).

8. The authorized share capital of Anaconda is an unlimited number of common shares of which 11,657,195 common shares were issued and outstanding as of April 7, 2003.

9. Neither Anaconda nor any of its officers or directors, nor to the knowledge of Anaconda or its officers and directors, any controlling shareholder, has (i) been the subject of any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority, (ii) entered into a settlement agreement with a Canadian securities regulatory authority, or (iii) been subject to any other penalties or sanction imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

10. Neither Anaconda nor any of its officers or directors, nor to the knowledge of the Anaconda, its officers and directors, any of its controlling shareholders, is or has been subject to: (i) any known ongoing or concluded investigations by: (a) a Canadian securities regulatory authority, or (b) a court or regulatory body, other than a Canadian securities regulatory authority, that would be likely to be considered important to a reasonable investor making an investment decision; or (ii) any bankruptcy or insolvency proceedings, or other proceedings, arrangements or compromises with creditors, or the appointment of a receiver, receiver-manager or trustee, within the preceding 10 years.

11. None of the officers or directors of Anaconda, nor to the knowledge of Anaconda, its officers and directors, any of its controlling shareholders, is or has been at the time of such event an officer or director of any other issuer which is or has been subject to: (i) any cease trade or similar orders, or orders that denied access to any exemptions under Ontario securities law, for a period of more than 30 consecutive days, within the preceding 10 years; or (ii) any bankruptcy or insolvency proceedings, or other proceedings, arrangements or compromises with creditors, or the appointment of a receiver, receiver-manager or trustee, within the preceding 10 years.

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

IT IS HEREBY ORDERED pursuant to subsection 83.1(1) of the Act that Anaconda is deemed to be a reporting issuer for the purposes of Ontario Securities Law.

April 22, 2003.

"Iva Vranic"

2.2.4 Matamec Explorations Inc. - ss. 83.1(1)

Headnote

Subsection 83.1(1) - issuer deemed to be a reporting issuer in Ontario - issuer has been a reporting issuer in Québec since June 22, 1998, and in British Columbia and Alberta since October 1, 2001 - issuer listed and posted for trading on the TSX Venture Exchange - continuous disclosure requirements of Québec, British Columbia and Alberta substantially the same to those of Ontario.

Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 83.1(1).

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

AND

IN THE MATTER OF
MATAMEC EXPLORATIONS INC.

ORDER
(Subsection 83.1(1) of the Act)

UPON the application of Matamec Explorations Inc. ("Matamec") to the Ontario Securities Commission (the "Commission") for an order pursuant to subsection 83.1(1) of the Act deeming Matamec to be a reporting issuer for the purposes of Ontario securities law;

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

AND UPON Matamec representing to the Commission as follows:

1. Matamec was incorporated on July 9, 1997 under the *Company Act* (Québec).

2. Matamec's head office is located at 1576, Sullivan Road, suite 2, Val-d'Or, Québec, J9P 1M3.

3. Matamec has been a reporting issuer under the *Securities Act* (Québec) (the "Québec Act") since June 22, 1998 following the receipt from the Commission des valeurs mobilières du Québec of Matamec's initial public offering prospectus.

4. Matamec became a reporting issuer under the *Securities Act* (Alberta) (the "Alberta Act") and under the *Securities Act* (British Columbia) (the "BC Act") on October 1, 2001, following the transfer of its shares from the Montreal Exchange Inc. ("ME") to the TSX Venture Exchange (formerly the Canadian Venture Exchange) (the "TSX Venture").

5. From November 1997 to September 30, 2001, Matamec's common shares (the "Shares") were listed and posted for trading on the ME. Since October 1, 2001, Matamec's common shares have been listed and posted for trading on the TSX Venture.

6. Matamec is not in default of any requirements of the Québec Act, the Alberta Act, the BC Act or TSX Venture.

7. Matamec is not a reporting issuer in Ontario, and is not a reporting issuer, or the equivalent, in any other jurisdiction, except British Columbia, Alberta and Québec.

8. Matamec has a significant connection to Ontario since, as of February 26, 2003, 13,336,615 Shares or approximately 75.2% of the total number of issued and outstanding Shares were registered in the name of residents of Ontario.

9. The continuous disclosure requirements of the Québec Act, the BC Act and the Alberta Act are substantially the same as the continuous disclosure requirements under the Act.

10. The continuous disclosure materials filed by Matamec under the Québec Act, the Alberta Act and the BC Act are available on the System for Electronic Document Analysis and Retrieval ("SEDAR").

11. Other than Québec, Alberta and British Columbia, Matamec is not a reporting issuer or the equivalent under the securities legislation of any other jurisdiction in Canada.

12. The authorized share capital of Matamec consists of an unlimited number of Shares, of which 17,724,709 Shares were issued and outstanding as of February 26, 2003.

13. The Shares are listed and posted for trading on TSX Venture under the symbol MAT.

14. Mr. Luc Lamarche, former Matamec president, entered into a settlement agreement with the Commission des valeurs mobilières du Québec (the CVMQ) in May, 2002. The settlement agreement related to certain charges that had been laid against Mr. Lamarche in connection with his communication through an internet discussion group of current and future business activities of Matamec. Matamec does not intend to reintegrate Mr. Lamarche into its current or future management team.

15. Matamec has not been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority, and Matamec has not entered into any settlement agreement with any Canadian securities regulatory authority.

16. With the exception of Luc Lamarche, neither Matamec nor any of its officers, directors nor, to the knowledge of Matamec, its officers and directors, any of its controlling shareholders, has: (i) been the subject of any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority, (ii) entered into a settlement agreement with a Canadian securities regulatory authority, or (iii) been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

17. With the exception of Luc Lamarche, neither Matamec nor any of its officers, directors, nor to the knowledge of Matamec, its officers and directors, any of its controlling shareholders, is or has been subject to: (i) any known ongoing or concluded investigations by: (a) a Canadian securities regulatory authority, or (b) a court or regulatory body, other than a Canadian securities regulatory authority, that would be likely to be considered important to a reasonable investor making an investment decision; or (ii) any bankruptcy or insolvency proceedings, or other proceedings, arrangements or compromises with creditors, or the appointment of a receiver, receiver-manager or trustee, within the preceding 10 years.

18. With the exception of Luc Lamarche, none of the officers or directors of Matamec, nor to the knowledge of Matamec, its officers and directors, any of its controlling shareholders, is or has been at the time of such event an officer or director of any other issuer which is or has been subject to: (i) any cease trade or similar orders, or orders that denied access to any exemptions under Ontario securities law, for a period of more than 30 consecutive days, within the preceding 10 years; or (ii) any bankruptcy or insolvency proceedings, or other proceedings, arrangements or compromises with creditors, or the appointment of a receiver, receiver-manager or trustee, within the preceding 10 years.

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

IT IS HEREBY ORDERED pursuant to subsection 83.1(1) of the Act that Matamec be deemed a reporting issuer for the purposes of the Act.

April 21, 2003.

"Iva Vranic"

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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/Revoke
Ariel Resources Ltd.	14 Apr 03	25 Apr 03		
July Resources Corp.	24 Apr 03	06 May 03		
Knowledgemax, Inc. (formerly Sideware Systems Inc.)	15 Apr 03	25 Apr 03		
Library Information Software Corp.	24 Apr 03	06 May 03		

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
Radiant Energy Corporation	26 Mar 03	08 Apr 03	08 Apr 03		

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Chapter 5

Rules and Policies

5.1.1 Amendments to National Instrument 55-102 System for Electronic Disclosure by Insiders (SEDI)

AMENDMENTS TO NATIONAL INSTRUMENT 55-102
SYSTEM FOR ELECTRONIC DISCLOSURE BY INSIDERS
(SEDI)

1.1 Paragraph 2.3(3)(a) of National Instrument 55-102 System for Electronic Disclosure by Insiders (SEDI) is repealed and the following substituted:

(a) the SEDI issuer issues any security or class of securities to any insider of the SEDI issuer, unless that issuance has already been disclosed in its issuer profile supplement;

1.2 (a) Section 4.1 of the National Instrument is amended by repealing subsection (3) and substituting the following:

(3) The requirements of securities legislation relating to paper format filings of insider reports apply to a filing under subsection (1) except that signatures to the paper format document may be in typed form rather than manual format and an agent may sign the paper format document on behalf of an insider who is an individual without filing a completed power of attorney.

(b) Section 4.1 of the National Instrument is amended by adding the following subsection:

(6) Despite sub-section 2.1(3) and sections 2.3 and 2.4, if unanticipated technical difficulties prevent a SEDI filer from filing an issuer profile supplement, an amended issuer profile supplement, an issuer event report or an amended insider profile within the specified time, the SEDI filer shall file such document as soon as practicable after the unanticipated technical difficulties have been resolved.

1.3 The National Instrument is amended by adding the following Part:

PART 9 - FILING OF ISSUER PROFILE SUPPLEMENT

9.1 Filing of Issuer Profile Supplement

(1) A SEDI issuer that filed an issuer profile supplement in SEDI format on or before January 31, 2002 shall file a new and current issuer profile supplement in SEDI format not later than the date specified by the regulator under subsection (2).

(2) For the purposes of subsection (1), the regulator may specify a period and that period must

(a) begin no earlier than the date that the notice is published under subsection (3), and

(b) be at least 18 days in length.

(3) After specifying a period under subsection (2), the regulator shall

(a) publish a notice specifying the date the period ends and the filing requirement under subsection (1), and

(b) issue a press release summarizing the notice given under paragraph (a).

1.4 (a) Form 55-102F1 Insider Profile of the National Instrument is amended by striking out the title of item 11 and substituting: "Date the insider became an insider or date of opening balance".

(b) Form 55-102F1 Insider Profile of the National Instrument is amended by striking out in item 11 "Alternatively, if the insider has previously filed an insider report in paper format in respect of the reporting issuer, provide the date of the insider's last paper filing in respect of the reporting issuer" **and substituting:**

"Otherwise, provide an opening balance date. This opening balance date will be used as the date for all opening balances of securities of this reporting issuer. The opening balance date should be a date prior to the date of any transactions that will be reported for this reporting issuer in SEDI".

(c) **Form 55-102F1 Insider Profile of the National Instrument is amended in the part titled *Notice – Collection and Use of Personal Information* by striking out** "Saskatchewan Securities Commission" and "800-1920 Broad Street" **in the address for the Saskatchewan Securities Commission and substituting** "Saskatchewan Financial Services Commission, Securities Division, 6th Floor, 1919 Saskatchewan Drive".

1.5 (a) **Form 55-102F2 Insider Report of the National Instrument is amended by striking out in item 8** "The "date of the transaction" will be the date the insider became an insider or the date of the previous filing, whichever has been reported in the insider profile." **and substituting** "The "Opening/initial balance date" will be the date the insider became an insider or the date the insider entered for all opening balances for securities of this issuer.".

(b) **Form 55-102F2 Insider Report of the National Instrument is amended in the part titled *Notice – Collection and Use of Personal Information* by striking out** "Saskatchewan Securities Commission" and "800-1920 Broad Street" **in the address for the Saskatchewan Securities Commission and substituting** "Saskatchewan Financial Services Commission, Securities Division, 6th Floor, 1919 Saskatchewan Drive".

1.6 (a) **Form 55-102F3 Issuer Profile Supplement of the National Instrument is amended by striking out in item 7** "being profiled" **and substituting:** "that is held by an insider of the reporting issuer who has direct or indirect beneficial ownership of, or control or direction over, that security or class of security".

(b) **Form 55-102F3 Issuer Profile Supplement of the National Instrument is amended in the part titled *Notice – Collection and Use of Personal Information* by striking out** "Saskatchewan Securities Commission" and "800-1920 Broad Street" **in the address for the Saskatchewan Securities Commission and substituting** "Saskatchewan Financial Services Commission, Securities Division, 6th Floor, 1919 Saskatchewan Drive".

1.7 (a) **Form 55-102F6 Insider Report of the National Instrument is amended by adding the following nature of transaction code to the List of Codes – *Issuer Derivatives*:**

Exercise for cash 59

(b) **Form 55-102F6 Insider Report of the National Instrument is amended by adding the following nature of transaction code to the List of Codes – *Miscellaneous*:**

Correction of information 99

(c) **Form 55-102F6 Insider Report of the National Instrument is amended by striking out** "Saskatchewan Securities Commission" and "800-1920 Broad Street" **in the address for the Saskatchewan Securities Commission and substituting** "Saskatchewan Financial Services Commission, Securities Division, 6th Floor, 1919 Saskatchewan Drive".

Effective Date: April 29, 2003

Chapter 6

Request for Comments

6.1.1 CSA Notice 81-404 - Request for Comment on Joint Forum Guidelines for Capital Accumulation Plans - Proposed Guidelines for Capital Accumulation Plans prepared by the Joint Forum of Financial Market Regulators

April 25, 2003

Dear Stakeholders:

Re: Proposed Guidelines for Capital Accumulation Plans

We are pleased to announce that, with the approval of the Canadian Association of Pension Supervisory Authorities (CAPSA), the Canadian Council of Insurance Regulators (CCIR) and the Canadian Securities Administrators (CSA), the Joint Forum of Financial Market Regulators (Joint Forum) has released for comment proposed *Guidelines for Capital Accumulation Plans* and a proposed strategy for implementation of the guidelines. You can obtain a copy of the proposed guidelines from the websites of CAPSA (www.capsa-acor.org), and CCIR (www.ccir-ccrra.org), or the websites of the members of the CSA. Paper copies are available upon request.

The Joint Forum Working Committee on Capital Accumulation Plans (CAPs) has been working with an industry task force since July of 2002 to develop these guidelines. The guidelines are based on the *Revised Principles for Investment Disclosure in Capital Accumulation Plans,* which were approved by the Joint Forum in April, 2002. The purpose of the guidelines is to:

- describe the rights and responsibilities of CAP sponsors, service providers and CAP members;
- ensure that CAP members have the information and assistance that they need to make investment decisions in a capital accumulation plan; and
- ensure that there is a similar regulatory result for all CAP products and services regardless of the regulatory regime that applies to them.

We are aware of a number of issues that need to be addressed in a subsequent implementation phase to ensure that there is a similar regulatory result for all CAP products and services regardless of the regulatory regime that applies to them. As such, the Joint Forum has developed a proposed strategy for implementation of the guidelines.

The Joint Forum would appreciate comments from stakeholders on the proposed guidelines and the proposed strategy for implementation of the guidelines. We would particularly like to receive comments from CAP sponsors, service providers and CAP members about how these guidelines would work for their plans. Quebec is pursuing its own consultation on the proposed guidelines in close parallel with the other jurisdictions. All submissions made to the Joint Forum will be published and will not be kept confidential. Please send your comments on the guidelines to:

Davin Hall
Policy Manager (A)
CAPSA Secretariat
c/o Joint Forum Project Office
5160 Yonge Street
17th Floor, Box 85
North York ON M2N 6L9

Email: capsa-acor@fsco.gov.on.ca
Telephone: 416-226-7773
Facsimile: 416-590-7070

The deadline for submitting your comments is August 31, 2003. Electronic submissions would be preferred.

Sincerely,

David Wild
Chair, Joint Forum of
Financial Market Regulators
Chair, Saskatchewan Financial Services Commission,
Superintendent of Pensions, Saskatchewan

Enclosures:

Guidelines for Capital Accumulation Plans
Proposed Strategy for Implementation of the Guidelines for Capital Accumulation Plans

JOINT FORUM REPRESENTATIVES

CANADIAN ASSOCIATION OF PENSION SUPERVISORY AUTHORITIES

David Wild
Chair of the Joint Forum
Chair, Financial Services Commission, and Superintendent of Pensions
Saskatchewan

Gail Armitage
Executive Director, Financial Sector Policy
Alberta

Bryan Davies
CEO & Superintendent of Financial Services
Ontario

Ross Gentleman
Superintendent of Pensions (Acting)
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CANADIAN SECURITIES ADMINISTRATORS

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Superintendent of Insurance and Pensions
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Superintendent of Financial Institutions
Manitoba

CANADIAN INSURANCE SERVICES REGULATORY ORGANIZATIONS

Jeffrey A. Bear
Chief Executive Officer
Registered Insurance Brokers of Ontario

BUREAU DES SERVICES FINANCIERS

Louise Champoux-Paillé
President

Guidelines for Capital Accumulation Plans
Backgrounder

- The Joint Forum of Financial Market Regulators' (Joint Forum) was established in January 1999 by the Canadian Securities Administrators (CSA), the Canadian Council Of Insurance Regulators (CCIR) and the Canadian Association of Pension Supervisory Authorities (CAPSA), as a mechanism for addressing issues of common interest arising from the growing integration of the financial services sector.

- The mandate of the Joint Forum is to pro-actively facilitate and coordinate the development of harmonized, cross-sectoral and cross-jurisdictional solutions to financial services regulatory issues. Since its inception, the Joint Forum has focussed on strengthening consumer protection through regulatory harmonization and enhanced consumer disclosure, and through co-ordinated and improved intermediary proficiency standards.

- The Joint Forum is chaired by David Wild, Chair of the Saskatchewan Financial Services Commission and Superintendent of Pensions

- The Joint Forum Working Committee on Capital Accumulation Plans was established in 1999 to examine the adequacy of investment information and assistance provided to members of capital accumulation plans where members are able to make investment choices.

- Three million Canadians belong to over 60,000 CAPs. Over seventy per cent of these plans allow members to make investment choices.

- In April 2001, the Joint Forum released for consultation a discussion paper entitled *Proposed Regulatory Principles for Capital Accumulation Plans*.

- In response, 44 submissions were received from stakeholders across Canada. Based on the responses revised principles were developed and approved by CAPSA, CCIR, the CSA and the Joint Forum in April 2002.

- An industry task force, drawn from the membership of insurance, pension and securities industry stakeholder associations as well as employer, consumer, labour and retiree groups, was assembled to assist the committee in developing detailed guidelines based on the revised principles.

- CAPSA, CCIR, the CSA and the Joint Forum approved the guidelines for consultation on April 2, 2003.

PROPOSED GUIDELINES
FOR
CAPITAL ACCUMULATION PLANS

April 2003

TABLE OF CONTENTS

Section 4: Introducing the Capital Accumulation Plan to CAP Members

Item 4.1 - General
- 4.1.1 Information on the nature and features of the CAP
- 4.1.2 Outlining the rights and responsibilities of CAP members
- 4.1.3 Making investment choices

Item 4.2 – Investment options
- 4.2.1 Investment funds
- 4.2.2 Employer securities
- 4.2.3 Other investment options

Item 4.3 - Transfer options
- 4.3.1 Information on transfer options
- 4.3.2 Transfer fees

Item 4.4 – Description of fees, expenses and penalties

Item 4.5 – Policy regarding CAP members failing to make investment choices

Item 4.6 – Additional information

Section 5: Ongoing Communication to Members

Item 5.1 – Member Statements
- 5.1.1 Frequency
- 5.1.2 Format
- 5.1.3 General content

Item 5.2 – Access to information
- 5.2.1 Other information available to CAP members
- 5.2.2 Transfer options
- 5.2.3 Report on significant changes in investment options
- 5.2.4 Adding an investment option
- 5.2.5 Adding an investment option
- 5.2.6 Removing or replacing an investment option
- 5.2.7 Changes in fees and expenses

Item 5.3 – Performance reports for investment funds
- 5.3.1 Frequency
- 5.3.2 Report on investment fund performance

Section 6: Maintaining a CAP

Item 6.1 – Service providers
- 6.1.1 Monitoring service providers
- 6.1.2 Action if there is unsatisfactory performance by a service provider

Item 6.2 – Investment options
- 6.2.1 Monitoring investment options
- 6.2.2 Monitoring investment funds
- 6.2.3 Action if there is unsatisfactory performance of investment options

Item 6.3 – Administration
- 6.3.1 Monitoring of records

Item 6.4 – Decision making-tools
- 6.4.1 Reviewing decision-making tools

Item 6.5 – Investment advice
- 6.5.1 Monitoring of service providers providing investment advice

Section 7: Changing the Purpose of a CAP

Section 8: Termination

Item 8.1 – Terminating a CAP

8.1.1 Communicating the termination of a plan to CAP members

Item 8.2 – Terminating a CAP Member

8.2.1 Communicating to CAP members on termination

Section 1: Introduction

Item 1.1 - Definitions

1.1.1 Capital Accumulation Plan

In these guidelines, a capital accumulation plan (CAP or plan), is an investment or savings plan established by an employer, trade union, trade association or any combination, for the benefit of its employees or members that permits the employees or members to make investment decisions.

1.1.2 CAP sponsors

In these guidelines, employers, trade unions, trade associations or combinations of these entities that establish CAPs are referred to as "CAP sponsors". If a CAP is a registered pension plan, many of the responsibilities of the CAP sponsor described in these guidelines are those of a pension plan administrator. In such cases, these guidelines should be interpreted considering the different roles of employers and pension plan administrators under applicable pension benefits standards legislation.

1.1.3 Service providers

In these guidelines, service providers include any provider of services or advice required by the CAP sponsor in the design, establishment and operation of a CAP.

1.1.4 CAP members

In these guidelines, "CAP members" are individuals who have assets in a CAP. This can include active or terminated employees, trade union or association members, and their spouses.

Item 1.2 – The purpose of the guidelines

These guidelines reflect the expectations of regulators, represent existing industry practices, and are intended to support the continuous improvement and development of industry practices.

The purpose of these guidelines is to:

- describe the rights and responsibilities of CAP sponsors, service providers and CAP members;
- ensure that CAP members have the information and assistance that they need to make investment decisions in a capital accumulation plan; and
- ensure that there is a similar regulatory result for all CAP products and services regardless of the regulatory regime that applies to them.

1.2.1 Application of the guidelines

These guidelines supplement any legal requirements applicable to capital accumulation plans. They do not replace any legislative requirements. CAP sponsors are responsible for meeting any relevant legal requirements, including any requirements that may extend beyond the scope of these guidelines.

These guidelines apply to all capital accumulation plans. However, the investment options and educational tools chosen may vary depending on the purpose of the plan. When establishing a capital accumulation plan, the CAP sponsor must clearly define the purpose of the plan. The purpose must be consistent with the terms of the plan. The CAP sponsor must also clearly communicate the purpose of the plan to CAP members and explain how it can affect how the plan operates (eg. the ability to access assets).

Item 1.3 - Implications for CAP sponsors, service providers, and CAP members

1.3.1 Responsibilities of CAP sponsors

When an employer, trade union, trade association or any combination decides to establish a capital accumulation plan, they assume certain responsibilities as CAP sponsor.

The CAP sponsor is responsible for setting up the plan, providing investment information and decision-making tools to CAP members as well as introducing the plan and providing on-going communication to members. The CAP sponsor is responsible for maintaining the plan and also has responsibilities upon termination of the plan.

The CAP sponsor may delegate its responsibilities to a service provider.

1.3.2 Responsibilities of service providers

To the extent that the responsibilities of a CAP sponsor are delegated to a service provider, the service provider is responsible for following these guidelines and any applicable legal requirements.

1.3.3 Responsibilities of CAP members

CAP members are responsible for making investment decisions and using the information and tools made available to assist them in making those decisions. The members may also be responsible for determining how much they will contribute to a CAP.

Section 2: Setting Up a CAP

Item 2.1 - General

2.1.1 Defining the purpose of a CAP

CAP sponsors must clearly define and document why a capital accumulation plan is being established. The purpose of the plan must be consistent with its terms and what CAP members are told.

CAPs may be established to assist members to achieve any outcome selected by the CAP sponsor. Some of the purposes for which a capital accumulation plan may be established are:

- retirement savings;
- tax efficient compensation;
- employer stock purchase;
- profit sharing; and
- savings for other financial goals such as education, home purchase, etc.

2.1.2 Deciding whether to use service providers

The CAP sponsor must decide if it has the necessary knowledge and skills to carry out the responsibilities set out in these guidelines as well as all relevant legal requirements. The CAP sponsor must also decide whether and how service providers should be used. Where the CAP sponsor does not have the necessary knowledge and skills to carry out its responsibilities, service providers should be used.

Service providers must have the appropriate level of knowledge and skills to perform the tasks delegated and to provide any advice requested by the CAP sponsor. They must also comply with these guidelines and any relevant legal requirements.

2.1.3 Selecting service providers

The CAP sponsor must prudently select any service providers it engages with regard to the best interests of the CAP members.

Where the CAP sponsor delegates responsibilities to a service provider, the CAP sponsor must ensure that the applicable roles and responsibilities of the CAP sponsor and service provider are carefully documented.

Item 2.2 - Investment options

2.2.1 Selecting investment options

The CAP sponsor should ensure that the plan offers a range of investment options that is appropriate considering the purpose of the CAP. In some cases, the choice of a service provider will define or limit the type and quality of investment options available to a plan.

The CAP sponsor must prudently select investment options. A service provider may assist in the selection of investment options or the CAP sponsor may delegate the selection of investment options entirely to a service provider.

When selecting investment options, the CAP sponsor must consider whether it is able to monitor the investment options on an on-going basis. A service provider may be used to help do the monitoring.

Factors a CAP sponsor should consider when choosing investment options, include:

- the purpose of the CAP;
- the appropriate number and selection of investment options;
- the diversity and demographics of CAP members;
- the financial sophistication of members;

- the degree of diversification among the investment options available to members;
- the liquidity of the investment options; and
- the level of risk associated with the investment options.

The degree of diversification, liquidity and the level of risk associated with investment options are particularly relevant for capital accumulation plans that are established for retirement purposes.

The investment options for CAPs may be limited by legislation. CAP sponsors must comply with relevant legislative requirements when choosing investment options.

2.2.2 Selecting investment funds

For the purpose of these guidelines, an investment fund means a mutual fund, pooled fund, segregated fund or similar pooled investment product.

If investment options chosen by the CAP sponsor are investment funds, the following factors should be also taken into account:

- the attributes of the investment funds such as the investment objective, investment strategies, investment risks, the manager(s), historical performance, and fees; and
- whether the investment funds selected provide CAP members with options that are diversified in their styles and objectives.

Investment funds offered in a capital accumulation plan must comply with:

- the investment rules applicable to Individual Variable Insurance Contracts if the investment fund is an insurance product; or
- the investment rules under National Instrument 81-102 Mutual Funds, if the investment fund is a mutual fund under securities law.

If investment funds are offered in a CAP that is a registered pension plan, the funds must comply with the investment rules under applicable pension benefits standards legislation.

2.2.3 Transfers among investment options

CAP members should be allowed reasonable opportunities to transfer between the investment options in the plan. The members must have an opportunity to transfer among options at least once a month.

CAP sponsors can restrict the number of transfers a member can make. Restrictions might be appropriate to limit costs borne by the CAP sponsor or collectively by all members for transfers by individual members.

Restrictions may include limiting the number of transfers by members or imposing fees if the established limit is exceeded.

2.2.4 CAP members failing to make investment choices

The CAP sponsor must establish a policy that outlines what happens if a CAP member does not make an investment choice. This may involve setting a default option to be applied if a member does not make an investment choice within a given period of time.

The policy must be communicated to the member before any action is taken under the policy. If the policy includes imposing a default option, the CAP sponsor must inform the member how the funds will be invested until the member communicates their investment choice.

Any default options chosen by the CAP sponsor must be selected prudently, and should be chosen using the same factors used when choosing the investment options generally.

Item 2.3 - Administration

2.3.1 Record keeping

The records of a capital accumulation plan must be properly prepared and maintained either internally or through a service provider. CAP sponsors should promptly correct any identified errors.

2.3.2 Retaining documents

The CAP sponsor should ensure that decisions about establishing and maintaining the plan and information about how those decisions are made are properly documented and that the documents are retained.

The CAP sponsor should establish a document retention policy. It should include:

- a description of the types of documents to be retained;
- how long various types of documents should be retained; and
- who can access the documents.

Section 3: Investment Information and Decision-Making Tools for CAP Members

Item 3.1 - General

3.1.1 Purpose of investment information and decision-making tools

The CAP sponsor must provide investment information and decision-making tools that will assist a CAP member in making investment decisions in the plan.

3.1.2 CAP member investment decisions

CAP members will have to make a number of investment decisions once they join a capital accumulation plan, including:

- how much to contribute (where the member can choose);
- how much they should contribute to any particular investment option; and
- whether an investment in a particular option should be moved to another option.

3.1.3 What type of investment information and decision-making tools are necessary

To decide which types of information and decision-making tools are appropriate for CAP members, the CAP sponsor should consider:

- the purpose of the plan (eg. members of a retirement plan should be provided information and tools that focus on retirement planning);
- what types of decisions members must make;
- the location, diversity and demographics of the members;
- the financial sophistication of the members; and
- the members' computer literacy and access to computers.

3.1.4 Targeting investment information and decision making tools

The CAP sponsor does not have to target investment information and decision-making tools to the specific needs of each CAP member. The CAP sponsor can determine the appropriate amount and type of investment information and decision-making tools to provide by considering the entire membership or distinct and identifiable groups of members within the plan.

Item 3.2 – Investment Information

The CAP sponsor must provide CAP members with investment information that could assist the members make investment decisions within the plan.

Types of information CAP sponsors should consider providing include:

- information about how investment funds work;
- information about investing in securities (eg. equities, bonds);
- information regarding the relative level of expected risk and return associated with different investment options;
- glossaries explaining terms used in the investment industry; and
- product guides, explaining specific features and benefits associated with products used within the CAP.

Item 3.3 - Investment decision-making tools

The CAP sponsor must provide CAP members with investment decision-making tools that could assist the members make investment decisions within the plan.

Types of tools CAP sponsors should consider providing include:

- asset allocation models that reflect the different levels of expected risk and return associated with different investment options in the plan;
- if applicable, retirement planning tools to help members estimate the amount of income they may need in retirement;
- calculators and projection tools to help members:
    - project the value of their current account balances at a future date using rate of return assumptions;
    - project the value of any future periodic contributions to the plan to estimate how much their accumulated contributions may be worth at a future date; and
    - calculate total and/or additional contribution amounts, so members can estimate appropriate total and/or additional periodic contributions they should consider to achieve a specific capital or income target in the future; and
- investor profile questionnaires to allow a member to self-assess their tolerance to risk, taking into account factors such as investment experience, time horizons and personal goals and preferences.

Item 3.4 – Investment advice

3.4.1 General

To help CAP members with their investment decision-making in the plan, a CAP sponsor may choose to enter into an arrangement with a service provider or refer the members to a service provider who can provide the members with advice about their investment decisions.

3.4.2 Selecting service providers to provide investment advice

If the CAP sponsor chooses to enter into an arrangement with a service provider or refer CAP members to a service provider who will provide investment advice to the members, the CAP sponsor must prudently select the service provider. The CAP sponsor can also get advice about who to select, or use a service provider to select the individuals or firms to provide investment advice.

Factors for the CAP sponsor to consider when selecting service providers to provide investment advice include:

- professional training;
- experience;
- specialization in the types of investment options in the plan;
- the advisor's understanding of employee benefits, pension legislation and other related rules;
- any real or perceived lack of independence of the advisor relative to other service providers, the CAP sponsor and its members;
- consistency of service offered in all geographical areas in which members reside;
- quality, level and continuity of services offered; and
- any complaints filed against the advisor or their firm and any disciplinary actions taken (if known).

3.4.3 Qualifications for service providers who provide investment advice

A service provider who provides investment advice should have the appropriate knowledge, skills and professional qualifications or designations to provide the advice required by CAP members.

In some jurisdictions there are legal requirements that must be met before a person can provide investment advice. Advisors that are appropriately registered or licensed must be used where required by law.

Item 3.5 - Fees related to investment information, decision-making tools or advice

The CAP sponsor must clearly inform CAP members who will bear costs associated with accessing or using any investment information, decision-making tools or investment advice provided by the CAP sponsor.

Up-front or lump sum fees should not be charged to members for basic investment information or decision-making tools because those fees or charges may discourage members from using the information or tools.

Item 3.6 - Privacy rights

Any personal information a service provider may get from a CAP member when providing investment advice must not be given to or accessed by the CAP sponsor unless the member consents in writing.

Item 3.7 - Independent investment advice

Information, decision-making tools and guidance provided by the CAP sponsor need not address the entire financial circumstances and planning needs of the CAP member. Accordingly, the CAP sponsor should caution the members that they ought to obtain additional independent investment advice.

Section 4: Introducing the Capital Accumulation Plan to CAP Members

When an individual becomes eligible to enroll in a capital accumulation plan, the CAP sponsor must clearly communicate in plain and simple language the purpose of the plan, explain how the plan operates, and provide the information outlined in this section.

Item 4.1 - General

4.1.1 Information on the nature and features of the CAP

The CAP sponsor must give CAP members current information on the nature and features of the plan including:

- contribution levels (if applicable);
- investment options;
- investment choice responsibilities; and
- names of service providers if applicable.

4.1.2 Outlining the rights and responsibilities of CAP members

The CAP sponsor must also inform CAP members that they:

- have the right to access information about the nature and features of the plan;
- are responsible for making investment decisions and that those decisions will affect the amount of money accumulated in the plan;
- are responsible for educating themselves about the plan, using the documents, information and tools available to them; and
- ought to obtain investment advice from an appropriately qualified individual in addition to using any information or tools the CAP sponsor may provide.

4.1.3 Making investment choices

CAP members must be informed how they can choose investments in the plan, how those choices can be changed and how long it will take for an investment choice to be implemented.

Item 4.2 – Investment options

4.2.1 Investment funds

For each investment fund that is an investment option, the CAP sponsor must provide CAP members at least the following information:

- the name of the investment fund;
- names of all investment management companies responsible for day-to-day investment management of fund assets;
- the fund's investment objective;
- the types of investments the fund may hold;
- any material risks of investing in the fund.
- how members can obtain information about fund holdings; and
- if the fund is structured as a fund of funds, names of the underlying funds;
- whether the fund is considered foreign property and if so, the implications for members.

4.2.2 Employer securities

When securities of the employer or a related party of the employer are included as an investment option in the plan, at least the following information must be provided to CAP members:

- name of the issuer and the security;
- relationship between issuer and employer - if the issuer of the security is different from the employer of the CAP members, describe the relationship between the issuer and the employer;
- any material risks of investing in the security; and
- whether the security is considered foreign property and if so, the implications for members.

4.2.3 Other investment options

CAP members must be given sufficient detail about other investment options so they can make an informed investment decision. This information should include:

- the name of the investment;
- the type of investment;
- the investment objective;
- any material risks; and
- whether the option is considered foreign property and if so, the implications for members.

Examples of investment options other than funds and employer securities include:

- guaranteed investment certificates (GICs);
- annuity contracts;
- other securities;
- government savings bonds; and
- cash.

Item 4.3 - Transfer options

4.3.1 Information on transfer options

The CAP sponsor must provide CAP members with information about how to make transfers among investment options. This information should include:

- any forms that are required and where they must be sent;
- whether there are other methods available for making transfers (for example, on the website provided by a service provider);
- any restrictions on the number of transfers between options a member is permitted to make within a given period, including any maximum limit after which a fee would be applied; and
- a description of possible situations where transfer options may be suspended.

Examples of situations where the CAP sponsor may temporarily suspend transfers are where:

- investment options are being changed by the CAP sponsor;

- a service provider is being changed by the CAP sponsor; or
- there are changes at the existing service provider (eg. introduction of new systems).

The CAP sponsor should communicate the reason why transfers will be suspended before the suspension occurs.

4.3.2 Transfer fees

Any fees for transferring between investment options (including penalties, book and market value adjustments, tax consequences) should be clearly outlined.

Item 4.4 – Description of fees, expenses and penalties

CAP members must receive a description and the amount of all fees, expenses and penalties relating to the plan that are to be paid by the members, including but not limited to:

- any commissions that must be paid when investments are bought or sold;
- investment fund management fees;
- investment fund operating expenses (eg. audit, legal and custodial fees, cost of financial statements and other reports or filings, taxes, transfer agency fees, pricing and bookkeeping fees)
- record keeping fees;
- transfer fees;
- account fees;
- fees for services provided by service providers; and
- fees for investment advice, decision-making tools or financial planning.

Where appropriate, these fees, expenses and penalties may be disclosed on an aggregate basis, provided the nature of the fees, expenses and penalties is disclosed. Where fees, expenses and penalties are incurred by members by virtue of member choices (eg. transfer fees, additional investment information or tools, etc), fees, expenses and penalties should not be aggregated.

Item 4.5 – Policy regarding CAP members failing to make investment choices

The CAP sponsor must communicate to CAP members the policy established under item 2.2.4, including the following information:

- a description of the policy; and
- a description of the default option (where applicable).

Item 4.6 – Additional information

The CAP sponsor must communicate to CAP members how they can access additional information related to the plan and give them a general description of the type of information that is available.

Section 5: Ongoing Communication to Members

Item 5.1 – Member Statements

5.1.1 Frequency

CAP members must receive a statement of their CAP account at least annually.

5.1.2 Format

CAP members must be informed that they can request a paper copy of their statement if the statement is normally provided in another format.

5.1.3 General content

The member statement should include:

- static information (which may vary depending on plan type) – such as: member name, date joined CAP, date of birth, province of employment, beneficiary;
- summary of investments - listing of the investments by option type (eg. investment funds, other securities, GICs);
- investment activity - the opening balance, contributions, net change in the value of the investments and closing balance;
- investment funds – name of fund, number of units, value of unit, total investment value, per cent of total investments;
- transaction details - investment description: date of transaction, transaction type (eg. interfund transfer), amount, unit value (if applicable), units purchased or withdrawn;
- how to get specific information on each investment option;
- how to get information about fees and expenses;
- how to get information on transfer options; and
- how to get other information.

If a statement includes the calculation of a personal rate of return for CAP members, the method used to produce the calculation should be described along with information about where the members can get a more detailed explanation of the calculation, if it is not shown on the statement. It should also be distinguished from any rate of return for an investment option (eg. investment fund rate of return) disclosed in the statement.

Item 5.2 – Access to Information

5.2.1 Other information available to CAP members

If not included in the member statement, the following information should be made available to CAP members upon request:

- details on investment funds – where to get fund holdings, financial statements and continuous disclosure information for each investment fund;
- details on GICs such as term of investment, date of maturity, interest rate, current book value plus accrued interest;
- details on each other investment option (see item 4.2);
- contribution details - option description, percentage of contribution to be allocated to option, type of contribution (member voluntary, member required, employer, transfer in); and
- details on fees and expenses (see item 4.4).

5.2.2 Transfer options

Information on transfer options should be made available to CAP members upon request.

In the event of a freeze on transfer rights, the restrictions should be disclosed in advance of the freeze period unless the freeze was due to unforeseen circumstances.

Changes to the method of making transfers between investment options or the cost associated with such transfers should be communicated to the members.

In the event of a change in available investment options, the manner in which assets will be allocated to new investment options if there is a change in options, service providers or participation, must be communicated to the members.

5.2.3 Report on significant changes in investment options

The CAP sponsor should give notice to the CAP members when there are significant changes in investment options. The notice should include:

- the effective date of the change;
- a brief description of the change and the reasons for the change;
- how the change could impact the member's holdings in the plan (eg. if the change impacts the level of risk of an investment option, this should be described);
- details of any penalties or special transaction fees that may apply to the change;
- a summary of any tax consequences that may arise as a result of the change;
- where to get more detailed information about the change;
- details on what the members must do (if action is required), and the consequences of not taking action; and
- a reminder to the members to evaluate the impact of the change on their current holdings in the plan.

Significant changes in investment options include:

- changes to the nature or operation of existing investment options;
- adding investment options;
- removing or replacing investment options;
- changes in fees and expenses; or
- change in service provider.

5.2.4 Adding an investment option

If an investment option is added, the CAP sponsor must give CAP members the information listed in item 4.2 and the information about transfer options in item 4.3. The members should also be informed of the date the new investment option will be available.

5.2.5 Removing or replacing an investment option

If an investment option is removed, the CAP sponsor must inform CAP members what must be done with their investment in that option. Information on any deadlines for member action and how assets will be allocated to new investment options in the event no action is taken by the member, must also be provided.

If an investment option is replaced, information about the impact of liquidating one investment option and re-investing in a replacement investment option must be provided, (eg, market-value adjustments, early withdrawal penalties, tax consequences, transaction fees, etc.).

5.2.6 Changes in fees and expenses

The CAP sponsor should provide information about significant changes to the expected or actual level of fees and expenses associated with an investment option or ongoing administration and record keeping that are paid by CAP members.

Item 5.3 - Performance reports for investment funds

5.3.1 Frequency

Performance reports for each investment fund and the member portfolio, where applicable, should be provided to the CAP member at least annually.

5.3.2 Report on investment fund performance

The following information should be included in the report on investment performance for each investment fund:

- name of the investment fund for which performance is being reported;
- name and description of the benchmark for the investment fund (for example, the S&P/TSX Composite Index for a Canadian Equity Fund). If the benchmark is a composite of several indices, this should be explained;
- corresponding returns for the benchmarks;
- performance should typically include at least 1, 3, 5 and 10 year performance information, if available;
- if the investment performance is gross or net of investment management fees and fund expenses;
- the method used to calculate the fund performance return calculation should be identified along with directions on where to find a more detailed explanation of the calculation;
- where available, disclosure of any significant non-adherence to the investment process of any investment fund and reasons; and
- a statement indicating that past performance is no indication of future performance.

Section 6: Maintaining a CAP

Item 6.1 – Service providers

6.1.1 Monitoring service providers

The CAP sponsor must prudently monitor all service providers who provide services or advice related to a capital accumulation plan. The criteria used to select the service provider should be considered when monitoring a service provider.

6.1.2 Action if there is unsatisfactory performance by a service provider

Where the CAP sponsor concludes that the performance of a service provider is unsatisfactory, appropriate action must be taken to address the unsatisfactory performance.

Item 6.2 - Investment options

6.2.1 Monitoring investment options

The CAP sponsor must monitor each of the investment options in the plan. Where the CAP sponsor does not have the necessary knowledge and skills to monitor investment options service providers should be used.

The performance of the investment option should be reviewed in relation to the purpose of the CAP, and the established standards and benchmarks selected by the CAP sponsor for the type of investment option. The CAP sponsor may choose to get advice from service providers about selecting benchmarks and assessing performance against those benchmarks.

6.2.2 Monitoring investment funds

Where the investment options chosen by the CAP sponsor include investment funds, the CAP sponsor should also consider the following factors when monitoring the investment manager and fund performance:

- the firm's adherence to its stated investment process, associated style (where applicable) and internal controls for compliance with the established investment policy and philosophy;
- performance relative to the established benchmark for the fund and where appropriate other funds with the same objectives and styles;
- organizational stability, strength and continuity of key personnel; and
- timeliness and quality of reporting.

6.2.3 Action if there is unsatisfactory performance of investment options

The CAP sponsor must take appropriate action where the performance of a selected investment option is unsatisfactory.

When deciding on what action may be appropriate as a result of unsatisfactory performance, the CAP sponsor should consider:

- the length of time performance has been unsatisfactory;
- any other deficiencies in how the investment option operates;
- any preferences voluntarily indicated by members;
- the effect taking such action would have on the members (eg. whether there would be tax consequences);
- remaining investment options available in the CAP; and
- the availability of alternative investment options.

Item 6.3 – Administration

6.3.1 Monitoring of records

The CAP sponsor should monitor how well the plan's records are maintained.

If the records are maintained internally, quality may be monitored by:

- reviewing CAP members' complaints about the records; and
- periodic audit; or
- review by a service provider.

If a service provider maintains the records, quality may be monitored by:

- reviewing the members' complaints about the records; and
- periodic audit;
- requiring an annual certification regarding the appropriateness of the controls, processes and systems employed; or
- review by an unrelated service provider.

Item 6.4 – Decision making-tools

6.4.1 Reviewing decision-making tools

The CAP sponsor must periodically review any decision-making tools provided to CAP members or that the members are encouraged to use to ensure that they remain relevant to the type of plan and are appropriate for the members (see item 3.1.3).

Item 6.5– Investment advice

6.5.1 Monitoring service providers who provide investment advice

Where applicable, a CAP sponsor must monitor the performance of advisors the CAP sponsor has an arrangement with or to whom the CAP sponsor has referred CAP members.

Because the advisor's primary relationship is with each member, it will not be possible or practical for the CAP sponsor to directly monitor the quality of the advice being provided.

The CAP sponsor should monitor the advisor using:

- the criteria used to select the advisor;
- any complaints arising from the members; and
- any complaints arising from the CAP sponsor or other service providers employed by the CAP sponsor.

Section 7: Changing the Purpose of a CAP

If the CAP sponsor decides to modify the purpose of a capital accumulation plan, the modified terms of the plan must be consistent with the modified purpose of the CAP.

The decision to change the purpose of the plan and the modified purpose of the plan must be documented and the decision and the impact that the decision will have on CAP members must be clearly communicated to the members prior to taking effect.

Section 8: Termination

Item 8.1 – Terminating a CAP

The termination of a CAP must be done in accordance with the terms of the plan and any relevant legal requirements.

8.1.1 Communicating the termination of a plan to CAP members

If a capital accumulation plan is terminated, the CAP sponsor should promptly provide information to CAP members regarding:

- the options available to each member;
- any actions that are required in respect of their options;
- any deadlines for member action;
- the manner in which assets will be liquidated or distributed;
- any default options that may apply if no action is taken; and
- the impact termination of the plan will have on each investment option (eg. the tax consequences, any market value adjustments, early withdrawal penalties or associated fees).

Item 8.2 – Terminating a CAP Member

The termination of a CAP member must be done in accordance with the terms of the plan and any relevant legislative requirements.

8.2.1 Communicating to CAP members on termination

If a CAP member terminates from a plan (eg. because of termination of employment, retirement or death), the CAP sponsor must promptly provide information about:

- the options available to the member;
- any actions the member must take;
- any deadlines for member action;
- any default options that may be applied if no action is taken; and
- the impact that the termination of plan membership will have on each investment option (eg. the tax consequences, any market value adjustments, early withdrawal penalties or associated fees).

In the event that a CAP member terminates because of death, this information should be given to the member's designated beneficiary.

Proposed Strategy for Implementation of the Guidelines for Capital Accumulation Plans

The proposed *Guidelines for Capital Accumulation Plans* issued for comment by the Joint Forum of Financial Market Regulators (Joint Forum) reflect the expectations of regulators, represent existing industry practices, and are intended to support the continuous improvement and development of industry practices related to Capital Accumulation Plans (CAPs).

While it is the expressed desire of the Joint Forum that the guidelines should not result in additional regulation, throughout the process of developing the guidelines, regulators and stakeholders have identified issues related to regulatory harmonization. These issues cannot be addressed by the guidelines alone, but must be addressed through further regulatory initiatives by the constituent members of the Joint Forum: the Canadian Association of Pension Supervisory Authorities (CAPSA); the Canadian Council of Insurance Regulators (CCIR); and the Canadian Securities Administrators (CSA). The regulatory initiatives are needed to ensure that that there is a similar regulatory result for all CAP products and services regardless of the regulatory regime that applies to them. As such, the Joint Forum is developing a strategy that will address implementation issues that have been identified through the process of developing the guidelines.

The direction that is being considered for the implementation of the guidelines requires action in the securities, pension and insurance sectors. The proposed strategy for implementing the guidelines is as follows:

- In the securities sector, it is proposed that the CSA consider providing relief from prospectus and registration requirements based primarily on the guidelines.

- In the insurance sector, CCIR representatives have initiated discussions with the Canadian Life and Health Insurance Association (CLHIA) about incorporating the guidelines, once approved, into the CLHIA standards structure in order to encourage adoption of the guidelines by CAP sponsors using insurance products and services.

- In the pension sector, it is proposed that CAPSA adopt the guidelines for member directed defined contribution pension plans. CAPSA has also advanced proposals through a consultation process on proposed recommendations for changes to the investment rules under the Pension Benefits Standards Act (Canada) that would facilitate the implementation of the guidelines. The proposed recommendations can be found in the consultation paper *Investment Rules for Pension Plans – Issues related to the application of the 10 percent concentration rule* on CAPSA's website: www.capsa-acor.org. In those jurisdictions that have not adopted the federal investment rules and in jurisdictions where changes to the federal investment rules do not automatically result in changes to the jurisdiction's investment rules, changes to existing investment regulations may also be required.

The Joint Forum invites comments on whether the proposed strategy outlined above will effectively address the implementation issues that have been identified so that a similar regulatory result can be achieved for all CAP products and services. The Joint Forum also invites submissions on additional implementation issues that need to be addressed.

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
04-Apr-2003	6082327 Canada Inc.	6063721 Canada Inc. - Shares	0.15	150.00
14-Mar-2003	Ralph Ruby	Acuity Pooled Fixed Income Fund - Trust Units	23,391.00	1,795.00
24-Mar-2003	John Hagerman	Acuity Pooled Fixed Income Fund - Trust Units	176,954.00	12,333.00
25-Mar-2003	Chong-Hwan Kim	Acuity Pooled Fixed Income Fund - Trust Units	176,140.00	12,248.00
25-Mar-2003	Tony Eames	Acuity Pooled High Income Fund - Trust Units	117,000.00	11,108.00
25-Mar-2003	3 Purchasers	Advantex Marketing International Inc. - Convertible Debentures	4,000,000.00	4,000.00
04-Apr-2003	5 Purchasers	AfriOre Limited - Debentures	4,740,000.00	1,500.00
11-Apr-2003	15 Purchasers	Alive International Inc. - Common Shares	351,732.00	3,513,721.00
10-Mar-2003	25 Purchasers	Aurelian Resources Corporation Ltd. - Special Warrants	1,643,166.67	9,859.00
28-Feb-2003	Janet Rinaldi	BPI American Opportunities Fund - Units	42,800.00	398.00
28-Feb-2003	Dennis Smith and Norma Reynolds	BPI Global Opportunites III Fund - Units	138,242.00	1,648.00
28-Jun-2002	Newport Partners Inc.	Canadian Country Club Communities Ltd. - Promissory note	600,000.00	1.00
31-Jan-2003	4 Purchasers	Canadian Country Club Communities Ltd. - Promissory note	1,400,000.00	4.00

26-Mar-2003 to 28-Mar-2003	4 Purchasers	Canadian Country Club Communities Ltd. - Promissory Note	980,000.00	4.00
31-Mar-2003	10 Purchases	Capital Environmental Resource Inc. - Preferred Shares	27,371,760.00	86.00
01-Jan-2003 to 31-Jan-2003	481 Purchasers	CGO&V Balanced Fund - Units	4,247,436.00	372,636.00
01-Jan-2003 to 31-Jan-2003	41 Purchasers	CGO&V Enhanced Yield Fund - Units	430,103.00	45,331.00
01-Jan-2003 to 31-Jan-2003	108 Purchasers	CGO&V Hazelton Fund - Units	2,557,885.00	219,676.00
09-Apr-2003	Philip Nafekh;Vincent Rueter	CHX Technologies Inc. - Common Shares	20,000.00	5,000.00
17-Mar-2003	Dynacare-Gamma Laboratory Partnership	Cogient Corp. - Common Shares	250,000.00	1,250.00
17-Mar-2003	4 Purchasers	Cogient Corp. - Convertible Debentures	520,000.00	520,000.00
15-Apr-2003	Graham Saunders	Committee Bay Resources Ltd. - Units	35,000.00	100,000.00
01-Apr-2003	Credit Risk Advisors LP	Dan River Inc. - Notes	737,600.00	500.00
09-Apr-2003	Business Development Bank of Canada	Environmental Management Solutions Inc. - Warrants	266,000.00	140,000.00
15-Apr-2003	3 Purchasers	Ethyl Corporation - Notes	2,174,550.00	26.00
01-Apr-2003	Jonathan Sohn	Excalibur Limited Partnership - Limited Partnership Units	221,380.00	1.00
01-Apr-2003	Eve Sohn	Excalibur Limited Partnership - Limited Partnership Units	221,380.00	1.00
01-Apr-2000	Marnie Sohn	Excalibur Limited Partnership - Limited Partnership Units	221,380.00	1.00
01-Apr-2003	Bryna Black	Excalibur Limited Partnership - Limited Partnership Units	239,214.00	1.00
01-Apr-2003	Bernard Sherman	Excalibur Limited Partnership - Limited Partnership Units	2,950,400.00	12.00
08-Apr-2003	Morgan Meighen & Associates Limited	Forest & Marine Investments Ltd. - Units	297,500.00	70,000.00
31-Mar-2003	Canadian General Capital Limited and American Honda Motor CoInc.	FuelMaker Corporation - Notes	685,942.00	2.00
31-Mar-2003	11 Purchasers	Greenfield Commercial Credit (Canada) Inc. - Common Shares	550,000.00	5,500,000.00

31-Mar-2003	9 Purchasers	Greenfield Commercial Credit (Canada) Inc. - Preferred Shares	2,000,000.00	2,000,000.00
04-Apr-2003	Mosaic Venture Partners II Limited Partnership and Ontario Teachers' Pension Plan Board	Grocery Gateway Inc. - Notes	2,700,000.00	2.00
03-Apr-2003	Credit Risk Advisors LP	Huntsman International LLC - Notes	737,600.00	500.00
07-Apr-2003	Credit Risk Advisors LP	iStar Financial Inc. - Notes	368,750.00	250,000.00
01-Apr-2003	Canadian Medial Protective Assocation	Imperial Capital Acquisition Fund III (Institutional) 2 Limited Partnership - Limited Partnership Units	107,000.00	107,000.00
10-Apr-2003	Kensington Fund of Funds; L.P.	Imperial Capital Acquisition Fund III (Institutional) 3 Limited Partnership - Limited Partnership Units	35,000.00	35,000.00
04-Apr-2003	Wayne Johnson	IMAGIN Diagnostics, Inc. - Shares	6,000.00	2,000.00
04-Apr-2003	Ignaco Comensoli	IMAGIN Diagnostics, Inc. - Shares	3,000.00	1,000.00
04-Apr-2003	Stephen Dobson	IMAGIN Diagnostics, Inc. - Shares	3,000.00	1,000.00
01-Apr-2003	Ontario Teachers Pension Plan	Ivory Overseas Fund Ltd. - Shares	1,475,000.00	1,000.00
14-Apr-2003	Augusta Realty Corp.	J.P. Morgan U.S. Real Estate Income and Growth Domestic, LP - Limited Partnership Interest	2,974,800.00	2,974,800.00
19-Mar-2003	Al and Arzini Mawani	KBSH Private - Global Leading Company - Units	100,000.00	14,293.00
31-Mar-2003	Labourers' Pension Fund of Central and Eastern Canada	Landmark Equity Partners XI, L.P. - Limited Partnership Interest	9,991,240.00	3.00
28-Feb-2003	Byung-She Choi	Landmark Global Opportunities Fund - Units	55,970.00	539.00
04-Apr-2002	Steelcase Canada Ltd.	Leith Wheeler Diversified Pooled Fund - Units	9.00	1.00
08-Apr-2003	Prussky consulting Limited and Black Cape Financial Corporation	LymphoSign Inc. - Common Shares	650.00	1,000.00
10-Mar-2003	4 Purchasers	LymphoSign Inc. - Common Shares	150,150.00	231,000.00
09-Apr-2003	Trilogy One Inc.	McCowan Arms Limited Partnership - Limited Partnership Units	1,200,000.00	24.00

08-Apr-2003	CrestStreet Power Holdings Limited	Mount Copper Wind Power Energy Inc. - Preferred Shares	16,509.00	16,510.00
08-Apr-2003	6 Purchasers	Mythum Interactive Inc. - Common Shares	190,000.00	76,000.00
17-Apr-2003	Gary Duck	N-able Technologies Inc. - Convertible Debentures	500,000.00	500,000.00
08-Apr-2003	24 Purchasers	New Solutions Financial (IV) Corporation - Debentures	1,710,000.00	1,710,000.00
03-Apr-2003	Brian W. Mercer	Norwood Resources Ltd. - Units	16,500.00	75,000.00
14-Apr-2003	Trudell Medical Limited	Oriel Therapeutics, Inc., - Preferred Shares	US$250,000.00	156,250.00
09-Apr-2003	10 Purchasers	Paradigm Market Neutral Preservation Fund - Units	580,129.96	57,849.00
11-Apr-2003	Brian Pel;Gregory Windfield	Parts360 Inc. - Units	74,580.00	226,000.00
31-Mar-2003	3 Purchasers	Performance Market Neutral Fund - Limited Partnership Units	325,000.00	240.00
11-Apr-2003	Points Investmnets;Inc.	Points International Ltd. - Shares	15,100,000.00	2.00
15-Apr-2003	2024595 Ontario Limited and HSBC Securities (Canada) Inc.	Prime Trust - Notes	5,990,492.00	2.00
10-Apr-2003	Household Finance Corporation	QSPE-CMFC Trust - Notes	15,000,000.00	1.00
04-Apr-2003	Foragen Technologies Limited	Radient Technologies Inc. - Preferred Shares	400,000.00	1,600,000.00
28-Feb-2003	Absolute Return Concepts Fund	RBC Global Investment Management Inc. - Units	37,245.00	237.00
08-Apr-2003	4 Purchasers	Shelton Canada Corp. - Flow-Through Shares	130,399.00	465,710.00
18-Mar-2003	Peter Ellement	Sprucegrove International Pooled Fund - Units	150,000.00	1,963.00
07-Apr-2003	6 Purchasers	Tesoro Petroleum Corporation - Notes	1,732,395.00	1,750,000.00
01-Apr-2003	NBLB Inc.	The Alpha Fund - Limited Partnership Units	600,000.00	6.00
10-Feb-2003	Terry Green	The Chippery Chip Factory Inc. - Convertible Debentures	450,000.00	450,000.00
10-Apr-2003	Bank of Montreal	The Goldman Sachs Group Inc. - Notes	14,971,200.00	15,000,000.00
08-Nov-2002	Credifinance Capital Inc.	Toronto Stock Exchange Inc. - Common Shares	4,311,382.00	253,760.00

28-Feb-2003	Michael Comeau	Trident Global Opportunities Fund - Units	8,958.00	86.00
04-Apr-2003	Cholo I. Manso	Trigence Corp. - Common Shares	400,001.00	400,000.00
31-Mar-2003	Nancy Philip	Vertex Fund - Trust Units	35,000.00	1,463.00
03-Apr-2003	6 Purchasers	Vivendi Universal S.A. - Notes	2,120,000.00	2,120,000.00
28-Mar-2003	ONCAP;The LaSorda	Western Inventory Service Holdings Ltd. - Notes	2,119,770.00	2.00
28-Mar-2003	ONCAP;Cayman Jetacorp Inc.	Western Inventory Service Holdings Ltd. - Notes	1,413,180.00	2.00
29-Mar-2003	7 Purchasers	Western Inventory Service Holdings Ltd. - Notes	1,160,000.00	7.00
25-Mar-2003 to 28-Mar-2003	12 Purchasers	WGI Heavy Minerals, Incorporated - Units	4,808,625.00	641,150.00
09-Apr-2003	795233 Ontario Ltd.	Xplore Technologies Corp. - Debentures	73,000.00	73,000.00
31-Dec-2002 02-Jan-2003	14 Purchasers	Zenda Capital Corp. - Units	130,000.00	1,300,000.00

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
The Catherine and Maxwell Meighen Foundation	Canadian General Investments, Limited - Common Shares	164,700.00
Larry Melnick	Champion Natural Health.com Inc. - Shares	119,765.00
Viceroy Resources Corporation	Channel Resources Ltd. - Common Shares	7,076,850.00
Estill Holdings Limited	EMJ Data Systems Ltd. - Common Shares	344,500.00
James A. Estill	EMJ Data Systems Ltd. - Common Shares	59,200.00
Glen R. Estill	EMJ Data Systems Ltd. - Common Shares	9,334.00
Edward Polak	Events International Holding Corporation - Common Shares	1,600,000.00
Mustang Minerals Corp.	JML Resources Ltd. - Common Share Purchase Warrant	697,483.00
Mustang Minerals Corp.	JML Resources Ltd. - Common Shares	951,999.00
Xenolith Gold Limited	Kookaburra Resources Ltd. - Common Shares	1,113,700.00
Stephen Sham	MedMira Inc. - Common Shares	276,000.00
William J. Gastle	Microbix Biosystems Inc. - Common Shares	494,133.00
Susan M. S. Gastle	Microbix Biosystems Inc. - Common Shares	7,548.00

Cambrelco Inc.	Polyair Inter Pack Inc. - Common Shares	99,900.00
Andrew J. Malion	Spectra Inc. - Common Shares	750,000.00
Michael R. Faye	Spectra Inc. - Common Shares	450,000.00
Thomas V. Hinke	Thermal Energy International Inc. - Common Shares	655,000.00
The Catherine and Maxwell Meighen Foundation	Third Canadian General Investment Trust Limited - Common Shares	116,000.00
Great Pacific Capital Corp.	Westshore Terminals Income Fund - Trust Units	829,000.00

Chapter 11

IPOs, New Issues and Secondary Financings

Issuer Name:
CFI Trust
Principal Regulator - Ontario
Type and Date:
Preliminary Short Form Shelf Prospectus dated April 14, 2003
Mutual Reliance Review System Receipt dated April 15, 2003
Offering Price and Description:
Up to $500,000,000 of Receivables-Backed Notes
Underwriter(s) or Distributor(s):
-
Promoter(s):
Corpfinance International Limited
Project #528955

Issuer Name:
Dupont Capital Inc.
Principal Regulator - Quebec
Type and Date:
Preliminary CPC Prospectus dated April 17, 2003
Mutual Reliance Review System Receipt dated April 22, 2003
Offering Price and Description:
$500,000 minimum (3,333,333 Common Shares) and $1,000,000 maximum (6,666,667 Common Shares) Price: $0.15 per share
Underwriter(s) or Distributor(s):
Desjardins Securities Inc.
Promoter(s):
-
Project #530108

Issuer Name:
Gloucester Credit Card Trust
Principal Regulator - Ontario
Type and Date:
Preliminary Short Form Prospectus dated April 16, 2003
Mutual Reliance Review System Receipt dated April 17, 2003
Offering Price and Description:
$ * * % Series 2003-1 Class A Notes, Expected Final Payment Date of *, 200 *
$* *% Series 2003-1 Collateral Notes, Expected Final Payment Date of * , 200 *
Underwriter(s) or Distributor(s):
RBC Dominion Securities Inc.
BMO Nesbitt Burns Inc.
CIBC World Markets Inc.
Scotia Capital Inc.
TD Securities Inc.
Promoter(s):
-
Project #529419

Issuer Name:
Merrill Lynch Financial Assets Inc.
Principal Regulator - Ontario
Type and Date:
Preliminary Short Form Prospectus dated April 15, 2003
Mutual Reliance Review System Receipt dated April 16, 2003
Offering Price and Description:
$302,400,000 (Approximate) Commercial Mortgage Pass-Through Certificates, Series 2003-Canada 9
Underwriter(s) or Distributor(s):
Merrill Lynch Canada Inc.
Promoter(s):
-
Project #529183

Issuer Name:
National Bank of Canada
Principal Regulator - Quebec
Type and Date:
Preliminary Short Form Shelf Prospectus dated April 14, 2003
Mutual Reliance Review System Receipt dated April 15, 2003
Offering Price and Description:
$500,000,000 (Maximum) NBC Ex-Tra Total Return Linked Notes
Underwriter(s) or Distributor(s):
National Bank Financial Inc.
Promoter(s):
-
Project #528867

Issuer Name:
Oil Sands Split Trust
Principal Regulator - Ontario
Type and Date:
Preliminary Prospectus dated April 16, 2003
Mutual Reliance Review System Receipt dated April 16, 2003
Offering Price and Description:
$ * - * Preferred Securities and $ * - Capital Units
@ $ * per Preferred Security and $ * per Capital Unit
Underwriter(s) or Distributor(s):
RBC Dominion Securities Inc.
Promoter(s):
RBC Dominion Securities Inc.
Project #529382

Issuer Name:
Real Return Bond Fund
Long Duration Bond Fund
Principal Regulator - Ontario
Type and Date:
Preliminary Simplified Prospectus dated April 16, 2003
Mutual Reliance Review System Receipt dated April 17, 2003
Offering Price and Description:
Class O, I and P Units
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #529425

Issuer Name:
Series S-1 Income Fund
Type and Date:
Preliminary Prospectus dated April 17, 2003
Mutual Reliance Review System Receipt dated April 17, 2003
Offering Price and Description:
Minimum $ * (* Trust Units)
Maximum $ * (* Trust Units)
Underwriter(s) or Distributor(s):
CIBC World Markets Inc.
TD Securities Inc.
BMO Nesbitt Burns Inc.
RBC Dominion Securities Inc.
National Bank Financial Inc.
Scotia Capital Inc.
Desjardins Securities Inc.
HSBC Securities (Canada) Inc.
Bieber Securities Inc.
Canaccord Capital Corporation
Dundee Securities Corporation
First Associates Investments Inc.
Wellington West Capital Inc.
Promoter(s):
Canadian Income Fund Group Inc.
Citadel Series Management Ltd.
Project #530105

Issuer Name:
Churchill Institutional Real Estate Limited Partnership
CPG Capital Corp
Principal Regulator - British Columbia
Type and Date:
Final Prospectuses dated April 14, 2003
Mutual Reliance Review System Receipt dated April 17, 2003
Offering Price and Description:
Minimum: $11,125,000 (445 Units); Maximum: $66,125,000 (2,645 Units) @$25,000 per Unit
Underwriter(s) or Distributor(s):
Dundee Securities Corporation
Promoter(s):
Churchill Property Group Inc.
Project #514359; 514396

Issuer Name:
Creststreet 2003 Limited Partnership
Principal Regulator - Ontario
Type and Date:
Final Prospectus dated April 17, 2003
Mutual Reliance Review System Receipt dated April 22, 2003
Offering Price and Description:
Limited Partnership Units
Underwriter(s) or Distributor(s):
Scoita Capital Inc.
CIBC World Markets Inc.
TD Securities Inc.
National Bank Financial Inc.
HSBC Securities (Canada) Inc.
Canaccord Capital Corporation
Raymond James Ltd.
Wellington West Capital Inc.
Promoter(s):
Creststreet 2003 Management Limited
Creststreet Asset Management Limited
Project #514176

Issuer Name:
Harmony Canadian Equity Pool
Harmony Canadian Fixed Income Pool
Harmony Overseas Equity Pool
Harmony RSP Overseas Equity Pool
Harmony RSP U.S. Equity Pool
Harmony U.S. Equity Pool (formerly Harmony U.S. Active Equity Pool)
Principal Regulator - Ontario
Type and Date:
Amendment #1 dated April 17, 2003 to the Simplified Prospectuses and Annual Information Forms dated December 20, 2003
Mutual Reliance Review System Receipt dated April 22, 2003
Offering Price and Description:
Mutual Fund Securities Net Asset Value
Underwriter(s) or Distributor(s):
AGF Fund Inc.
AGF Funds Inc.
Promoter(s):
-
Project #493055

Issuer Name:
ING Canadian Dividend Income Fund
Principal Regulator - Ontario
Type and Date:
Final Simplified Prospectuses dated April 14, 2003
Mutual Reliance Review System Receipt dated April 16, 2003
Offering Price and Description:
Offering Investor Class Units, Exclusive Class Units and Institutional Class Units
Underwriter(s) or Distributor(s):
-
Promoter(s):
ING Investment Management, Inc.
Project #517871

Issuer Name:
Northwest Canadian Equity Fund
Northwest Money Market Fund
Northwest Balanced Fund
Northwest Foreign Equity Fund
Northwest RSP Foreign Equity Fund
Northwest Speciality High Yield Bond Fund
Northwest Speciality Equity Fund
Northwest Speciality Innovations Fund
Principal Regulator - Ontario
Type and Date:
Final Simplified Prospectuses dated April 11, 2003
Mutual Reliance Review System Receipt dated April 15, 2003
Offering Price and Description:
Series A and F Units
Underwriter(s) or Distributor(s):
Northwest Mutual Funds Inc.
Northwest Mutual Funds Inc.
Promoter(s):
Northwest Mutual Funds Inc.
Project #520254

Issuer Name:
Ore-Leave Capital Inc.
Principal Regulator - Ontario
Type and Date:
Final CPC Prospectus dated April 21, 2003
Mutual Reliance Review System Receipt dated April 22, 2003
Offering Price and Description:
MINIMUM OFFERING: $250,000 or 1,666,667 Common Shares; MAXIMUM OFFERING: $400,000 or 2,666,667 Common Shares PRICE: $0.15 per Common Share
Underwriter(s) or Distributor(s):
Jennings Capital Inc.
Promoter(s):
Dino Titaro
Project #512958

Issuer Name:
Trinidad Energy Services Income Trust
Principal Regulator - Alberta
Type and Date:
Final Prospectus dated April 1, 2003
Mutual Reliance Review System Receipt dated April 2, 2003
Offering Price and Description:
$12,000,001.00 - 4,615,385 Trust Units @$2.60 per Unit
Underwriter(s) or Distributor(s):
RAYMOND JAMES LTD.
CANACCORD CAPITAL CORPORATION
HAYWOOD SECURITIES INC.
Promoter(s):
TRINIDAD DRILLING LTD.
Project #518246

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Chapter 12

Registrations

12.1.1 Registrants

Type	Company	Category of Registration	Effective Date
New Registration	Infinium Capital Corporation Attention: Alan Grujic 67 Yonge Street Suite 1501 Toronto ON M5E 1J8	Investment Dealer	Apr 17/03

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Chapter 13

SRO Notices and Disciplinary Proceedings

13.1.1 MFDA - Extension of Transition Periods: Early Warning and Monthly Reporting

MFDA - EXTENSION OF TRANSITION PERIODS: EARLY WARNING AND MONTHLY REPORTING

Background

Section 39 of MFDA By-law No.1 provides that the Board of Directors may suspend or modify the application of any By-law, Rule or provision thereof for such period of time as it may determine.

On March 16, 2001 the MFDA issued Member Regulation Notice MR-0001 "*Transition Periods*" advising Members that the MFDA Board had approved:

- A two-year transition period for MFDA Rule 3.5.1(a), which requires monthly financial reporting. During the two-year transition period, Members were required to file financial reports on a quarterly basis unless staff determined more frequent reporting was necessary.

- A two-year transition period for MFDA Rule 3.4, which imposes automatic sanctions to Members who have triggered one of the MFDA's early warning tests. Staff retained the right to impose the sanctions during the transition period if it was deemed necessary.

These transition periods were to expire on March 15, 2003.

Extension of Transition Periods: Early Warning and Monthly Reporting

On March 21, 2003, the MFDA Board of Directors approved a one-year extension of the transition periods to March 2004 for both the monthly reporting requirement and the automatic activation of early warning sanctions. The extensions were approved to provide MFDA staff with the opportunity to further analyze the appropriate form and frequency of financial reporting and to determine whether the existing early warning tests are appropriate for MFDA Members.

MFDA staff retains the right to require monthly financial reporting or impose early warning sanctions during the transition period if it is necessary in light of a Member's circumstances.

13.1.2 MFDA Member Regulation Notice - Extension of Certain Transition Periods

MR-0018
April 17, 2003

MEMBER REGULATION NOTICE

EXTENSION OF CERTAIN TRANSITION PERIODS

Section 39 of MFDA By-law No. 1 provides that the Board of Directors may suspend or modify the application of any By-law, Rule or provision thereof for such period of time as it may determine.

On March 16, 2001, the MFDA issued Member Regulator Notice MR-0001 advising Members that the MFDA Board had approved a 2–year transition period relating to monthly financial reporting and automatic early warning sanctions. Please be advised that the MFDA Board has approved an extension of these transition periods, as set out below.

1. Financial Reporting Requirements of Members

The MFDA Board has approved a one-year extension of the transition period to March 2004 relating to the MFDA monthly financial reporting requirement. During this extension of the transition period, the MFDA will require Members to file with the MFDA financial reports on a quarterly basis, but retains the right to require more frequent financial reporting at any time during this period if the MFDA deems it necessary in light of a Member's circumstances. *(Rule 3.5.1(a))*

2. Early Warning Requirements

The MFDA Board has approved a one-year extension of the transition period to March 2004 relating to the implementation of automatic early warning sanctions. During this extension of the transition period, the MFDA will reserve the right to request financial information from a Member and implement the sanctions set out under the Rules. *(Rule 3.4)*

13.1.3 IDA – Amendments to Regulation 100 – Positions in and Offsets Involving Exchange Traded Derivatives

INVESTMENT DEALERS ASSOCIATION OF CANADA –

AMENDMENTS TO REGULATION 100 – POSITIONS IN AND OFFSETS INVOLVING EXCHANGE TRADED DERIVATIVES

I Overview

As part of a general review of Regulation 100, improvements to the capital and margin rules for positions in and offsets involving exchange traded derivatives have been identified. These improvements include simplifying, broadening the application of and correcting known errors in the existing rules as well as expanding the number of permissible reduced margin offset strategies. The proposed amendments to Regulations 100.9 and 100.10 (included as Attachment #1) seek to make these improvements.

A Current Rules

The current rules for positions in and offsets involving exchange traded derivatives set out capital and margin requirements for individual derivative positions and offset strategies involving multiple derivative positions. As a result, these rules are referred to as "strategy-based rules". These strategy-based rules set out the capital and margin requirements for a particular derivative position or offset strategy, based on its calculated worst-case scenario loss. The current strategy-based rules have been developed over the last couple of decades, largely by staff at the Toronto Stock Exchange ("TSX") and the Bourse de Montreal ("BdM"), as new exchange traded derivative products have been introduced. The last major revision to the IDA rules relating to exchange traded derivatives, as set out in Regulations 100.9 and 100.10, took place in August 1998, when the rules relating to TSX derivative products were adopted.

B The Issues

The issues identified with the current rules are as follows: (1) there are current rules that are only available for certain derivative offset strategies held in Member firm accounts that should also be available in customer accounts; (2) the current rules are too product specific resulting, in some instances, in rule duplication and, in other instances, in the rule not being available for similar products; (3) the drafting language used throughout the rules is inconsistent; (4) the rules for specific offset strategies are hard to find; and (5) excess conservatism has been found in the current rules for certain existing offset strategies. Each of these issues is discussed in more detail in the detailed analysis section of this paper.

C Objective

The objectives of these amendments are to simplify, broaden the application of and correct known errors in the existing rules as well as expand the number of permissible reduced margin offset strategies.

D Effect of Proposed Rules

The effect of these proposed amendments is anticipated to be immaterial in terms of impact on market structure, competitiveness of members versus non-members and costs of compliance. The bulk of the amendments to Regulations 100.9 and 100.10 relate to rule streamlining and rule wording clarification. There are amendments being proposed that would make available current rules that are only available for certain derivative offset strategies held in Member firm accounts to customer accounts as well. The cost of any systems changes associated with these proposed new customer account offset requirements is considered to be immaterial.

II Detailed Analysis

A Current Rules, Relevant History and Proposed Policy

Current Rules and Relevant History

As mentioned previously, the current strategy-based rules have been developed over the last couple of decades. At the time these rules were first introduced, strategy-based rules were adopted as the preferred approach, largely to address the most common trading strategies employed by derivative traders. These strategy-based rules set out the capital and margin requirements for a particular derivative position or offset strategy, based on its calculated worst-case scenario loss, taking into account the risk associated with the security underlying derivative position(s). Subsequently as new products have been introduced, additional strategy-based rules have been developed. In the case of the rules relating to TSX listed derivative products, every time a new index product group[1] was introduced, a new set of strategy-based offset requirements was added to

[1] The product group for a particular index would include the index basket, the index participation unit, the index option, the index participation unit option and the index future.

the rules. As a result, the current IDA rules include offset requirements relating to the Toronto 35 Index, the TSE 100 Index and the TSE 300 Index product groups. So, not only are these rules out of date there is also rule redundancy as rules relating to the Toronto 35 Index product group are virtually identical to the rules relating to the TSE 100 Index product group.

The history of how the current rules have developed is also a great contributor to the issues with the current rules that have been identified. The remainder of this section details each of these issues in more detail.

(1) There are current rules that are only available for certain derivative offset strategies held in Member firm accounts that should also be available in customer accounts

There are number of derivative offset strategies that are available for Member firm account use and not available for customer account use (refer to Attachment #2 for a complete list). It is not known for certain why this is the case. It is possible that there may have been at some time a concern over relative level of customer knowledge of derivatives. However, when you look at the list of strategies where reduced margin for customer positions is currently being denied, they are some of the most effective risk reduction strategies that are available using derivatives. As a result, it was concluded that it doesn't makes sense to prohibit customer account use of offset strategies that are currently available for Member firm account use.

(2) The current rules are too product specific resulting, in some instances, in the rule duplication and, in other instances, in the rule not being available for similar products

As stated above, as new derivative products were introduced, a new set of strategy-based offset requirements was normally added to the rules. In the case of the equity index derivative products that have been introduced by the TSX over the years, this has lead to significant duplication of the rules. As an example, in the current rules there are six separate instances where capital rules are set out for a covered call strategy involving specific TSX index products. Because these rules are specific to TSX index products they are not applicable to other index products such as those based on the U.S. S&P 500 Index or the U.K. FTSE 100 Index. As a result, it was concluded that specific derivative product rules should be replaced with rules with broader application in order to both remove rule redundancy and make the rule available for similar products that currently exist or may be introduced in the future.

(3) The drafting language used throughout the rules is inconsistent

Since the current strategy-based offset requirements have been developed over an extended period of time, their development has necessarily involved a number of different rule drafters over the years, with different drafting styles. This has led to inconsistent rule wording and an increased likelihood of improper application of the current rules. As a result, it was concluded that the drafting language used throughout the strategy-based offset rules should be consistent, wherever possible.

(4) The rules for specific offset strategies are hard to find

As a by-product of the level of redundancy within the current strategy-based rules, the rules are currently 61 pages in length and it is difficult to find the rule that applies to a specific offset strategy. As a result, it was concluded that efforts should be made to organize the rules in a more logical fashion to allow for greater ease of use.

(5) Excess conservatism has been found in the current rules for certain existing offset strategies

While the main focus of the review performed on Regulations 100.9 and 100.10 was to identify rule streamlining opportunities, excess conservatism was found in the current capital and margin requirement calculations for the following position/offset strategies:

1. The minimum customer credit requirement for a short put option position;

2. The capital and margin requirements for a short call option versus short put option offset;

3. The capital and margin requirements for a short call option versus long underlying security offset;

4. The capital and margin requirements for a short put option versus short underlying security offset; and

5. The capital and margin requirements for a long put option versus long underlying security offset.

Proposed Rule Amendments

To address the above noted issues the proposed amendments to Regulations 100.9 and 100.10 seek to:

- Expand the number of offsets available in customer accounts by permitting the use of offset strategies that are currently exclusive to Member firm accounts (see Attachment #2 for list of offset strategies that are proposed to be made available in customer accounts)
- Broaden the application of the existing rules through:
    - The replacement of the current specific index product group rules with generic rules that apply to all qualifying indices
    - Establishing definitions for the terms "index" [*Proposed Reg. 100.9(a)(xii)*] and "qualifying basket of index securities" [*Proposed Reg. 100.9(a)(xxiv)*] in order to limit the use of these generic rules
    - Establishing a definition for the term "tracking error margin rate" [*Proposed Reg. 100.9(a)(xxv)*] to ensure where cross product offsets[2] are being performed that the margin requirement calculated is sufficient to cover any imperfect price correlation.
- Standardize the drafting language used to improve consistency of rule wording
- Insert descriptive rule titles and re-order the rules so that they are easier to find
- Revise the following rules to remove excess conservatism found in the current requirements:
    1. The minimum customer credit requirement for a short put option position [*Proposed Regs. 100.9(d)(ii)*];
    2. The capital and margin requirements for a short call option versus short put option offset [*Proposed Regs. 100.9(f)(ii), 100.9(h)(ii)(B), 100.10(f)(ii) and 100.10(h)(ii)(B)*];
    3. The capital and margin requirements for a short call option versus long underlying security offset [*Proposed Regs. 100.9(g)(i), 100.9(h)(iii)(A), 100.10(g)(i) and 100.10(h)(iii)(A)*];
    4. The capital and margin requirements for a short put option versus short underlying security offset [*Proposed Regulations 100.9(g)(ii), 100.9(h)(iii)(B), 100.10(g)(ii) and 100.10(h)(iii)(B)*]; and
    5. The capital and margin requirements for a long put option versus long underlying security offset [*Proposed Regulations 100.9(g)(iv), 100.9(h)(iii)(D), 100.10(g)(iv) and 100.10(h)(iii)(D)*];

B Issues and Alternatives Considered

As part of the review performed of Regulations 100.9 and 100.10, the continued need for strategy-based rules was considered. Financial institutions are increasingly adopting more sophisticated methodologies that are less capital intensive for the purposes of measuring their principal trading inventory risk. These methodologies include the TIMS and SPAN methodologies that have been widely adopted by the major derivatives clearing houses and in house value at risk ("VaR") models.

However, the use of such sophisticated methodologies is of limited use in determining the margin requirement for relatively simple derivative hedging strategies, particularly in retail customer account situations. As a result, it was determined that there was still a need for strategy-based rules.

To address this need, this proposal seeks to improve the current drafting of these strategy-based rules. However, the use of more sophisticated methodologies such as TIMS, SPAN and VaR has not been completely discounted. Rather, a separate study will be performed to determine the appropriateness of the use of these methodologies as alternatives to the use of strategy-based margin rules.

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[2] This tracking error requirement will apply where appropriate to the following index product pairings: (i) index participation unit options versus index basket, (ii) index options versus index participation units, (iii) index participation unit options versus index options, (iv) index options versus index futures and (v) index participation unit options versus index futures.

C Comparison with Similar Provisions

United States

Similar to Canada, the United States regulators utilize strategy-based rules in determining the capital and margin requirements for positions in and offsets involving exchange traded derivatives. However, as a result of an amendment in 1997 to Rule 15c3-1 of the Securities Exchange Act of 1934, dealers are permitted to use theoretical option pricing models (i.e., either TIMS or SPAN) as an alternative in determining net capital requirements for principal trading positions in listed options and related securities.

United Kingdom

In the United Kingdom, the Financial Services Authority allows for the use of a more sophisticated methodology than strategy-based rules. This methodology is called the Position Risk Requirement ("PRR") and there are a number of permitted alternatives in calculating the PRR for a particular portfolio of securities. The PRR model relevant to exchange traded derivatives is set out in Rule 10-91 of The Investment Business Interim Prudential Sourcebook and is entitled "Treatment of Equity Derivatives Outside the Equity Method".

D Systems Impact of Rule

The rule is not believed to have material system implications.

E Best Interests of the Capital Markets

It is believed that this set of public interest rule amendments is not detrimental to the best interests of the capital markets.

F Public Interest Objective

According to subparagraph 14(c) of the Association's Order of Recognition as a SRO, the Association shall, where requested, provide in respect of a proposed rule change "a concise statement of its nature, purposes (having regard to paragraph 13 above) and effects, including possible effect on market structure and competition". Statements have been made elsewhere as to the nature and effects of the proposals. The purposes of this proposal are "to standardize industry practices where necessary or desirable for investor protection" and "facilitate fair and open competition in securities transactions generally". The proposal does not permit unfair discrimination among customers, issuers, brokers, dealers, members or others. It does not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes.

It has been determined that this proposal is in the public interest as, even though the majority of the rule amendments being proposed are housekeeping in nature, there are amendments that seek to expand the number of offsets available in customer accounts and revise existing rules to remove excess conservatism.

III Commentary

A Filing in Other Jurisdictions

These proposed amendments will be filed for approval in Alberta, British Columbia, Saskatchewan and Ontario and will be filed for information in Nova Scotia.

B Effectiveness

As stated previously, the amendments to existing rules being proposed include simplifying, broadening the application of and correcting known errors in the existing rules as well as expanding the number of permissible reduced margin offset strategies. It is believed these proposed amendments will be effective in achieving these objectives.

C Process

This proposal was developed by the FAS Capital Formula Subcommittee. This proposal has also been reviewed and recommended for approval by the Executive Committee of the Financial Administrators Section and the Financial Administrators Section.

IV Sources

IDA Regulations 100.9 and 100.10

United States Securities Exchange Act of 1934, Net Capital Rule 15c3-1(c)(2)(x), Brokers or Dealers Carrying Accounts of Options Specialists

United Kingdom Financial Services Authority, The Investment Business Interim Prudential Sourcebook, June 2000, Rule 10-91, Treatment of Equity Derivatives Outside the Equity Method

V OSC Requirement to Publish for Comment

The IDA is required to publish for comment the accompanying proposed amendments so that the issue referred to above may be considered by OSC staff.

The Association has determined that the entry into force of the proposed amendments would be in the public interest. Comments are sought on the proposed amendments. Comments should be made in writing. One copy of each comment letter should be delivered within 30 days of the publication of this notice, addressed to the attention of Richard Corner, Director, Regulatory Policy, Investment Dealers Association of Canada, Suite 1600, 121 King Street West, Toronto, Ontario, M5H 3T9 and one copy addressed to the attention of the Manager of Market Regulation, Ontario Securities Commission, 20 Queen Street West, 19th Floor, Box 55, Toronto, Ontario, M5H 3S8.

Questions may be referred to:

Richard Corner,
Director, Regulatory Policy
Investment Dealers Association of Canada
(416) 943-6908
rcorner@ida.ca

Jane Tan,
Information Analyst, Regulatory Policy
Investment Dealers Association of Canada
(416) 943-6979
jtan@ida.ca

INVESTMENT DEALERS ASSOCIATION OF CANADA

CAPITAL AND MARGIN REQUIREMENTS FOR POSITIONS IN OPTIONS, FUTURES AND OTHER EQUITY-RELATED DERIVATIVES

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. Regulation 100.9 is repealed and replaced[3] as follows:

"100.9. Customer positions in options, futures and other equity-related derivatives

(a) **For the purposes of this Regulation 100.9**:

(i) the term "aggregate current value" means, in the case of index options, the level of the index at any given time multiplied by $1.00 and then multiplied by the unit of trading.

(ii) the term "aggregate exercise value" means the exercise price of an option multiplied by the unit of trading.

(iii) the term "call option" means an option:

(A) for equity, participation unit, and bond options, which gives the holder the right to buy and the writer the obligation to sell the underlying interest at a stated exercise price either on or before the expiration date of the option;

(B) for index options, which gives the holder the right to receive and the writer the obligation to pay, if the current value of the index rises above the exercise price, the difference between the aggregate exercise price and the aggregate current value of the underlying interest either on or before the expiration date of the option; or

(C) for OCC options, which gives the holder the right to buy and the writer the obligation to sell the underlying interest at a stated exercise price either on or before the expiration date of the OCC option;

(iv) the term "class of options" means all options of the same type covering the same underlying interest.

(v) the term "clearing corporation" means, in respect of an option, the clearing corporation or other organization which is the issuer of the option.

(vi) the term "customer account" means an account for a customer of a Member, but does not include an account in which a member of a self-regulatory organization, or an affiliate, approved person or employee of such a Member, member or affiliate, as the case may be, has a direct or indirect interest, other than an interest in a commission charged.

(vii) the term "escrow receipt" means:

(A) in the case of an equity, a participation unit or a bond option, a document issued by a financial institution approved by Canadian Derivatives Clearing Corporation certifying that a security is held and will be delivered upon exercise by such financial institution in respect of a specified option of a particular customer of a Member; or

(B) in the case of an OCC option, a document issued by a depository approved by the clearing corporation, after executing and delivering agreements required by The Options Clearing Corporation, certifying that a security is held and will be delivered upon exercise by such financial institution in respect of a specified OCC option of a particular customer of a Member;

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[3] Note: Due to the complexity of the amendments being proposed, manual black-lining has been performed for only those areas of the proposals where new rules are being proposed or existing rules are being substantively changed (i.e., other than clarification wording changes). Footnotes to the amendments have been inserted to describe all substantive changes.

(viii) the term "exercise price" in respect of an option means:

(A) in the case of an equity, a participation unit or a bond option, the specified price per unit at which the underlying interest may be received in the case of a call option, or delivered, in the case of a put option;

(B) in the case of index options, the specified price per unit, which may be received by the holder and paid by the writer in the case of a call option or a put option; or

(C) in the case of an OCC option, the specified price per unit at which the underlying interest may be received in the case of a call option, or delivered, in the case of a put option;

upon exercise of the option.

(ix) the term "firm account" means an account established by a Member, which is confined to positions carried by the Member on its own behalf.

(x) the term "floating margin rate" means:

(A) the last calculated regulatory margin interval, effective for the regular reset period or until a violation occurs, such rate to be reset on the regular reset date, to the calculated regulatory margin interval determined at that date, where a reset results in a lower margin rate; or

(B) where a violation has occurred, the last calculated regulatory margin interval determined at the date of the violation, effective for a minimum of twenty trading days, such rate to be reset at the close of the twentieth trading day, to the calculated regulatory margin interval determined at that date, where a reset results in a lower margin rate.

For the purposes of this definition, the term "regular reset date" is the date subsequent to the last reset date where the maximum number of trading days in the regular reset period has passed.

For the purposes of this definition, the term "regular reset period" is the normal period between margin rate resets. This period shall be determined by the Canadian self regulatory organizations with member regulation responsibilities and shall be no longer than 60 trading days.

For the purposes of this definition, the term "regulatory margin interval", when calculated, means the sum of:

(C) the product of:

(I) the maximum standard deviation of percentage changes in daily closing prices over the most recent 20, 90 and 260 trading days; and

(II) 3 (for a 99% confidence interval); and

(II) the square root of 2 (for two days coverage);

and

(D) 0.50% (representing a cushion);

rounded up to the next quarter percent.

For the purposes of this definition, the term "violation" means the circumstance where the maximum 1 or 2 day percentage change in the daily closing prices is greater than the margin rate.[4]

(xi) the term "incremental basket margin rate" means for a qualifying basket of index securities:

[4] The proposed definition of "floating margin rate" has been modified to give the SROs the ability to determine the regular margin rate reset period. The previous definition set the regular reset period at 60 trading days. The new definition allows greater discretion is setting this period and accommodates the current practice of the Bourse de Montreal to reset rates each month.

(A) 100% less the cumulative relative weight percentage (determined by calculating for each security the actual basket weighting in relation to the latest published relative weighting in the index and then determining an overall relative weight percentage) for the qualifying basket of index securities, multiplied by

(B) the weighted average margin rate for those equity securities comprising the basket for which the actual weighting is less than the latest published relative weight for the index (weighted by the percentage weighting deficiency for each security (i.e., the published relative weighting minus the actual weighting, if applicable)).

(xii) the term "index" means an equity index where:

(A) the basket of equity securities underlying the index is comprised of eight or more securities;

(B) the single largest security position by weighting comprises no more than 35% of the overall market value of the basket;

(C) the average market capitalization for each security position in the basket of equity securities underlying the index is at least $50 million; and

(D) in the case of foreign equity indices, the index is both listed and traded on an exchange that meets the criteria for being considered a recognized exchange, as set out in the definition of "regulated entities" included in the General Notes and Definitions to Form 1.[5]

(xiii) the term "index option" means an option whose underlying interest is an index.

(xiv) the term "in-the-money" means:

(A) in the case of an equity, a participation unit or a bond option, that the market price;

(B) in the case of an index option, that the current value; or

(C) in the case of an OCC option, that the market price or the current value;

of the underlying interest is above the exercise price in the case of a call option, and below the exercise price in the case of a put option.

(xv) the term "market maker account" means a firm account of a clearing member that is confined to transactions initiated by a market maker.

(xvi) the term "non-customer account" means an account established with an Member by another member of a self-regulatory organization, or affiliate, approved person or employee of a Member, member or affiliate, as the case may be, in which the Member does not have an interest, direct or indirect, other than an interest in fees or commissions charged.

(xvii) the term "OCC option" means a call option or a put option issued by The Options Clearing Corporation.

(xviii) the term "option" means a call option or put option issued by the Canadian Derivatives Clearing Corporation pursuant to its rules.

(xix) the term "out-of-the-money" means:

(A) in the case of an equity, a participation unit or a bond option, that the market price;

(B) in the case of an index option, that the current value; or

(C) in the case of an OCC option, that the market price or the current value;

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5 The proposed definition of "index" serves to restrict the use of the "floating margin rate" methodology to those indices, both sector indices and broadly based indices, that meet the criteria set out.

of the underlying interest is below the exercise price in the case of a call option, and above the exercise price in the case of a put option.

(xx) the term "participation unit" means an interest in a trust, the underlying assets of which are equities and/or other securities.

(xxi) the term "participation unit option" means an option whose underlying interest is a participation unit.

(xxii) the term "premium" means the aggregate price, excluding commissions and other fees, that the buyer of an option pays and the writer of an option receives for the rights conveyed by the option contract.

(xxiii) the term "put option" means, an option:

(A) for an equity, a participation unit or a bond option, which gives the holder the right to sell and the writer the obligation to buy the underlying interest at a stated exercise price either on or before the expiration date of the option;

(B) for index options, which gives the holder the right to receive and the writer the obligation to pay, if the current value of the index falls below the exercise price, the difference between the aggregate exercise price and the aggregate current value of the underlying interest either on or before the expiration date of the option; or

(C) for OCC options, which gives the holder the right to sell and the writer the obligation to buy the underlying interest at a stated exercise price either on or before the expiration date of the OCC option;

(xxiv) the term "qualifying basket of index securities" means a basket of equity securities:

(A) all of which are included in the composition of the same index;

(B) which comprise a portfolio with a market value equal to the market value of the securities underlying the index;

(C) where the market value of each of the equity securities comprising the portfolio proportionally equals or exceeds the market value of its relative weight in the index, based on the latest published relative weights of securities comprising the index;

(D) where the required cumulative relative weighting percentage of all equity securities comprising the portfolio:

(I) equals 100% of the cumulative weighting of the corresponding index, where the basket of equity securities underlying the index is comprised of less than twenty securities;

(II) equals or exceeds 90% of the cumulative weighting of the corresponding index, where the basket of equity securities underlying the index is comprised of twenty or more securities but less than one hundred securities; and

(III) equals or exceeds 80% of the cumulative weighting of the corresponding index, where the basket of equity securities underlying the index is comprised of one hundred or more securities;

based on the latest published relative weightings of the equity securities comprising the index;

(E) where, in the circumstance where the cumulative relative weighting of all equity securities comprising the portfolio equals or exceeds the required cumulative relative weighting percentage and is less than 100% of the cumulative weighting of the corresponding index,

the deficiency in the basket is filled by other equity securities included in the composition of the index.[6]

(xxv) the term "tracking error margin rate" means the last calculated regulatory margin interval for the tracking error resulting from a particular offset strategy. The method of calculation and the margin rate reset policy is the same as that used for the floating margin rate.

(xxvi) the term "underlying interest" means,

(A) in the case of an equity, a participation unit or a bond option, the security;

(B) in the case of an index option, the index;

(C) in the case of an OCC option in a currency, the currency;

(D) in the case of an OCC option in debt, the debt;

(E) in the case of an OCC option in an index, the index;

(F) in the case of any other OCC option, the security;

which is the subject of the option.

(xxvii) the term "unit of trading" means the number of units of the underlying interest which have been designated by the exchange as the minimum number or value to be the subject of a single option in a series of options. In the absence of any such designation, for a series of options:

(A) in which the underlying interest is an equity, the unit of trading shall be 100 shares;

(B) in which the underlying interest is an index, the unit of trading shall be 100 units;

(C) in which the underlying interest is a bond, the unit of trading shall be 250 units;

(D) in which the underlying interest is a participation unit, the unit of trading shall be 100 units.

(b) **Exchange traded options – general margin requirements**

The minimum amount of margin which must be obtained in margin accounts of customers having positions in options shall be as follows:

(i) All opening writing transactions and resulting short positions must be carried in a margin account.

(ii) Each option shall be margined separately and:

(A) in the case of equity or participation unit options, any difference between the market price of the underlying interest; or

(B) in the case of index options, any difference between the current value of the index,

and the exercise price of the option shall be considered to be of value only in providing the amount of margin required on that particular option;

(iii) Where a customer account holds both options and OCC options that have the same underlying interest, the OCC options may be considered to be options for the purposes of the calculation of the margin requirements for the account under this Regulation 100.9.

(iv) From time to time the Association may impose special margin requirements with respect to particular options or particular positions in options.

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6 The proposed definition of "qualifying basket of index securities" allows for varying cumulative weighting percentage requirements to be met for an index basket to be considered a qualifying basket for offset purposes, based on the number of issues included in the index. This addresses the operational issues associated with hedging larger index baskets while ensuring the price correlations relating to hedging with smaller index baskets are kept high.

(c) **Long option positions**

(i) Subject to sub-paragraph (ii), all purchases of options shall be for cash and long positions shall have no loan value for margin purposes.

(ii) Where in the case of equity options, the underlying interest in respect of a long call option is the subject of a legal and binding cash take-over bid for which all conditions have been met, the margin required on such call option shall be the market value of the call option less the amount by which the amount offered exceeds the exercise price of the call option. Where such a take-over bid is made for less than 100% of the issued and outstanding securities, the margin requirement shall be applied pro rata in the same proportion as the offer and paragraph (c)(i) shall apply to the balance.

(d) **Short option positions**

(i) The minimum credit requirement which must be maintained in respect of an option carried short in a customer account shall be:

(A) 100% of the current market value of the option; plus

(B) a percentage of the market value of the underlying interest determined using the following percentages:

(I) For equity options or equity participation unit options, the margin rate used for the underlying interest;

(II) For index options or index participation unit options, the published floating margin rate for the index or index participation unit;

minus;

(C) any out-of-the-money amount associated with the option.

(ii) Paragraph (d)(i) notwithstanding, the minimum credit requirement which must be maintained and carried in a customer account trading in options shall be not less than:

(A) 100% of the current market value of the option; plus

(B) an additional requirement determined by multiplying:

(I) In the case of a short call option position, the market value of the underlying interest; or

(II) In the case of a short put option position, the aggregate exercise value of the option;

by one of the following percentages:

(III) For equity options or equity participation unit options, 5.00%; or

(IV) For index options or index participation unit options, 2.00%.[7]

(e) **Covered option positions**

(i) No margin shall be required for a call option carried short in a customer's account which is covered by the deposit of an escrow receipt. The underlying interest deposited in respect of such options shall not be deemed to have any value for margin purposes.

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7 This proposed amended rule changes the minimum margin requirement for a short put option to include a minimum percentage amount based on the aggregate exercise value of the option rather than the market value of the underlying security. This minimum requirement only comes into effect when the short put option is "deep out-of-the-money" The change corrects the anomaly in the current rule where, as the market price of a security increases, the minimum margin requirement also increases. This change also conforms the requirement for short put options to that set out in NASD 2520(f)(2)(D).

Evidence of a deposit of the underlying interest shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Association. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation;

(ii) No margin shall be required for a put option carried short in a customer's account which is covered by the deposit of an escrow receipt which certifies that acceptable government securities are being held by the issuer of the escrow receipt for the account of the client. The acceptable government securities held on deposit:

(A) shall be government securities:

(I) which are acceptable forms of margin for the clearing corporation; and

(II) which mature within one year of their deposit, and

(B) shall not be deemed to have any value for margin purposes.

The aggregate exercise value of the short put option shall not be greater than 90% of the aggregate par value of the acceptable government securities held on deposit. Evidence of the deposit of the acceptable government securities shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Association on request. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation; and

(iii) No margin shall be required for a put option carried short in a customer's account if the customer has delivered to the Member with which such position is maintained a letter of guarantee, issued by a financial institution which has been authorized by the clearing corporation to issue escrow receipts, in a form satisfactory to the Association, and is:

(A) a bank which is a Canadian chartered bank or a Quebec savings bank; or

(B) a trust company which is licensed to do business in Canada, with a minimum paid-up capital and surplus of $5,000,000,

provided that the letter of guarantee certifies that the bank or trust company,

(C) holds on deposit for the account of the customer cash in the full amount of the aggregate exercise value of the put option and that such amount will be paid to the clearing corporation against delivery of the underlying interest covered by the put option; or

(D) unconditionally and irrevocably guarantees to pay to the clearing corporation the full amount of the aggregate exercise value of the put option against delivery of the underlying interest covered by the put option,

and further provided that the Member has delivered the letter of guarantee to the clearing corporation and the clearing corporation has accepted it as margin.

(f) **Option spreads and combinations**

(i) **Call spreads and put spreads**

Where a customer account contains one of the following spread pairings:

- long call option and short call option; or

- long put option and short put option;

and the short option expires on or before the date of expiration of the long option, the minimum margin required for the spread pairing shall be the lesser of:

(A) the margin required on the short option pursuant to sub-paragraphs 100.9(d)(i) and (ii); or

(B) the spread loss amount, if any, that would result if both options were exercised.

(ii) **Short call – short put spreads**

Where a call option is carried short for a customer's account and the account is also short a put option on the same number of units of trading on the same underlying interest, the minimum ~~credit~~margin required shall be the greater of:

~~(A) the greater of:~~

~~(I) the credit required on the short call position; or~~

~~(II) the credit required on the short put position;~~

~~plus~~

~~(B) any in-the-money amount associated with the position in (A) having the lower credit requirement;~~

(A) the greater of:

(I) the margin required on the call option position; or

(II) the margin required on the put option position;

and

(B) the excess of the aggregate exercise value of the put option over the aggregate exercise value of the call option.[8]

(iii) **Long call – long put**

Where a call option is carried long for a customer's account and the account is also long a put option on the same number of units of trading on the same underlying interest, the minimum margin required shall be:

(A) 100% of the market value of the call option; plus

(B) 100% of the market value of the put option; minus

(C) the greater of:

(I) the amount by which the aggregate exercise value of the put option exceeds the aggregate exercise value of the call option; or

(II) 50% of the total of the amount by which each option is in-the-money.[9]

(iv) **Long call – short call – long put**

Where a call option is carried long for a customer's account and the account is also short a call option and long a put option on the same number of units of trading on the same underlying interest, the minimum margin required shall be:

(A) 100% of the market value of the long call option; plus

(B) 100% of the market value of the long put option; minus

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8 There is an anomaly in the current rule for spreads where both options are in-the-money and the calculated margin requirement for each individual short option is the same. The proposed amended rule assumes both options will be exercised if they are in-the-money and determines a margin requirement in this instance based on the difference between the exercise values of both options.

9 Proposed that existing offset for Member firm account positions be made available for customer account positions.

(C) 100% of the market value of the short call option; plus

(D) the greater of:

(I) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the short call option; and

(II) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the long put option.

Where the amount calculated in (D) is negative, this amount may be applied against the margin charge.[10]

(v) **Short call – long warrant**

Where a call option is carried short for a customer's account and the account is also long a warrant on the same number of units of trading on the same underlying interest, the minimum margin required shall be the sum of:

(A) the lesser of:

(I) the margin required for the call option pursuant to sub-paragraph 100.09(d)(i)(B); or

(II) the spread loss amount, if any, that would result if both the option and the warrant were exercised.

and;

(B) the excess of the market value of the warrant over the in-the-money value of the warrant multiplied by 25%; and

(C) the in-the-money value of the warrant, multiplied by:

(I) 50%, where the expiration date of the warrant is 9 months or more away, or

(II) 100%, where the expiration date of the warrant is fewer than 9 months away.

The market value of any premium credit carried on the short call option may be used to reduce the margin required on the long warrants, but cannot reduce the margin required to less than zero.[11]

(g) **Option and security combinations**

(i) **Short call – long underlying (or convertible) combination**

Where, in the case of equity or equity participation unit options, a call option is carried short in a customer's account and the account is also long an equivalent position in the underlying interest or, in the case of equity options in a security readily convertible or exchangeable (without restrictions other than the payment of consideration and within a reasonable time provided such time shall be prior to the expiration of the call option) into the underlying interest, or in the case of equity participation unit options in securities readily exchangeable into the underlying interest, the minimum margin required shall be the sum of:

~~(A) the margin required on the long security position, in the case of equity or equity participation unit options, based on the market value of such security or the exercise value of the short call option, whichever is lower; and~~

~~(B) where a convertible security or exchangeable security is held, the amount of the conversion loss as defined in Regulation 100.4H.~~

[10] Proposed that existing offset for Member firm account positions be made available for customer account positions.

[11] Proposed that existing offset for Member firm account positions be made available for customer account positions.

(A) the lesser of:

(I) the normal margin required on the underlying interest; and

(II) any excess of the aggregate exercise value of the call options over the normal loan value of the underlying interest;

and

(B) where a convertible security or exchangeable security is held, the amount of the conversion loss as defined in Regulation 100.4H.[12]

In the case of exchangeable or convertible securities, the right to exchange or convert the long security shall not expire prior to the expiration date of the short call option. If the expiration of the right to exchange or convert is accelerated (whether by reason of redemption or otherwise), then such short call option shall be considered uncovered after the date on which such right to exchange or convert expires.

(ii) **Short put – short underlying combination**

Where, in the case of equity or equity participation unit options, a put option is carried short in a customer's account and the account is also short an equivalent position in the underlying interest, the minimum ~~credit~~margin required shall be the lesser of:~~the credit required on the short security position, in the case of equity or equity participation unit options, based on the market value of such security or the exercise value of the short put, whichever is greater.~~

(A) the normal margin required on the underlying interest; and

(B) any excess of the normal credit required on the underlying interest over the aggregate exercise value of the put options.[13]

(iii) **Long call – short underlying combination**

Where, in the case of equity or equity participation unit options, a call option is carried long in a customer's account and the account is also short an equivalent position in the underlying interest, the minimum credit required shall be the sum of:

(A) 100% of the market value of the call option; and

(B) the lesser of:

(I) the aggregate exercise value of the call option; and

(II) the normal credit required on the underlying interest.

(iv) **Long put – long underlying combination**

Where, in the case of equity or equity participation unit options, a put option is carried long in a customer's account and the account is also long an equivalent position in the underlying interest, the minimum margin required shall be the lesser of:

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12 The current approach is to require margin based on 30% of the lesser of: (i) the market value of the stock, and (ii) the exercise value of the call options. Under this approach, where the options are either at-the-money or in-the-money, the margin required is 30% of the exercise value of the call options no matter how in-the-money the call options may be. This leads to significantly higher than necessary margin requirements for offsets involving options that are deep in-the-money (i.e., where the security market value is at least 30% above the exercise value of the call options). The proposed requirement would limit the margin requirement for an offset involving a deep in-the-money call options to the maximum loss that would be experienced with a 30% price drop.

13 The current approach is to require margin based on 30% of the greater of: (i) the market value of the stock, and (ii) the exercise value of the put option. Under this approach where the option is either at-the-money or in-the-money, the margin required is exercise value of the put option no matter how in-the-money the put option may be. This leads to significantly higher than necessary margin requirements for hedges involving options that are deep in-the-money (i.e., where the security market value is at least 30% below the exercise value of the put option). The proposed requirement would limit the margin requirement for an offset involving a deep in-the-money put option to the maximum loss that would be experienced with a 30% price increase.

~~(A) 100% of the market value of the long put; plus~~

~~(B) the minimum margin requirement for the long security position; minus~~

~~(C) any in-the-money amount associated with the long put;~~

(A) the normal margin required on the underlying interest; and

(B) the excess of the combined market value of the underlying interest and the put option over the aggregate exercise value of the put option.[14]

(v) **Conversion or long tripo combination**

Where, in the case of equity or participation unit options, a position in an underlying interest is carried long in a customer's account and the account is also long an equivalent position in put options and short an equivalent position in call options, the minimum margin required shall be:

(A) 100% of the market value of the long put options; minus

(B) 100% of the market value of the short call options; plus

(C) the difference, plus or minus, between the market value of the qualifying basket (or participation units) and the aggregate exercise value of the long put options, where the aggregate exercise value used in the calculation cannot be greater than the aggregate exercise value of the call options.[15]

(vi) **Reconversion or short tripo combination**

Where, in the case of equity or participation unit options, a position in an underlying interest is carried short in a customer's account and the account is also long an equivalent position in call options and short an equivalent position in put options, the minimum margin required shall be:

(A) 100% of the market value of the long call options; minus

(B) 100% of the market value of the short put options; plus

(C) the difference, plus or minus, between the aggregate exercise value of the long call options and the market value of the qualifying basket (or participation units), where the aggregate exercise value used in the calculation cannot be greater than the aggregate exercise value of the put options.

~~Where the call options are in the money, this in the money value may be applied against the capital required.~~[16]

(h) **Offset combinations involving index products**

(i) **Option spreads**

In addition to the option spreads permitted in Regulation 100.9(f), the following additional option spread strategies are available for positions in index options and index participation unit options:

(A) **Box spread**

Where a customer account contains one of the following box spread combinations:

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14 The current approach gives no loan value to the intrinsic value of the put option. As a result, in situations where the put option is in-the-money, the net loan value granted to the combined long stock/long put options positions may be significantly less than the exercise value of the put option. The proposed approach would effectively only require margin on an offset involving an in-the-money put option to the extent of any time value.

15 Proposed that existing offset for Member firm account positions be made available for customer account positions.

16 Proposed that existing offset for Member firm account positions be made available for customer account positions.

- box spread involving index options; or

- box spread involving index participation unit options;

such that a customer holds a long and short call option and a long and short put option with the same expiry month and where the long call option and short put option, and short call option and long put option have the same strike price, the minimum margin required shall be the lesser of:

(I) the greater of the margin requirements calculated for the component call and put spreads (Regulation 100.9(f)(i)), and

(II) the greater of the out-of-the-money amounts calculated for the component call and put spreads

(B) **Long butterfly spread**

Where a customer account contains one of the following butterfly spread combinations:

- long butterfly spread involving index options; or

- long butterfly spread involving index participation unit options;

such that a customer holds a short position in two call options (or put options) and the short call options (or short put options) are at a middle strike price and are flanked on either side by a long call option (or long put option) having a lower and higher strike price respectively, the minimum margin required shall be the net market value of the short and long call options (or put options).

(C) **Short butterfly spread**

Where a customer account contains one of the following butterfly spread combinations:

- short butterfly spread involving index options; or

- short butterfly spread involving index participation unit options;

such that a customer holds a long position in two call options (or put options) and the long call options (or long put options) are at a middle strike price and are flanked on either side by a short call option (or short put option) having a lower and higher strike price respectively, the minimum margin required shall be the amount, if any, by which the exercise value of the long call options (or long put options) exceeds the exercise value of the short call options (or short put options).

(ii) **Index option and index participation unit option spread combinations**

(A) **Call spread combinations and put spread combinations**

Where a customer account contains one of the following spread combinations:

- long index put option and short index participation unit put option; or

- long index call option and short index participation unit call option; or

- long index participation unit call option and short index call option; or

- long index participation unit put option and short index put option;

and the short option expires on or before the date of expiration of the long option, the minimum margin required for the spread combination shall be the lesser of:

(I) the margin required on the short option pursuant to sub-paragraphs 100.9(d)(i) and (ii); and

(II) the greater of:

(a) the loss amount, if any, that would result if both options were exercised; and

(b) the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

(B) **Short call – short put spread combinations**

Where a customer account contains one of the following combinations:

- short index call option and short index participation unit put option; or
- short index participation unit call option and short index put option;

the minimum ~~credit~~margin required ~~for the spread combination~~ shall be the ~~greater~~greatest of:

~~(I) the loss amount, if any, that would result if both options were exercised; and~~

~~(II) the greater of:~~

~~(a) the credit required on the short put option pursuant to paragraphs 100.9(d)(i) and (ii); and~~

~~(b) the credit required on the short call option pursuant to paragraphs 100.9(d)(i) and (ii).~~

(I) the greater of:

(a) the margin required on the short call option position; or

(b) the margin required on the short put option position;

and

(II) the excess of the aggregate exercise value of the short put option over the aggregate exercise value of the short call option;

and

(III) the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[17]

(iii) **Index option combinations with index baskets and index participation units**

(A) **Short call option combinations with long qualifying index baskets or long index participation units**

Where a customer account contains one of the following option related combinations:

- short index call options and long an equivalent number of qualifying baskets of index securities; or
- short index call options and long an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or

[17] There is an anomaly in the current rule for spreads where both options are in-the-money and the calculated margin requirement for each individual short option is the same. The proposed amended rule assumes both options will be exercised if they are in-the-money and determines a margin requirement in this instance based on the difference between the exercise values of both options.

- short index participation unit call options and long an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or

- short index participation unit call options and long an equivalent number of index participation units;

the minimum margin required shall be the greater of:~~on the qualifying basket (or participation units), using the lower of the market value of the qualifying basket (or participation units) or the exercise value of the call options.~~

(I) the lesser of:

(a) the normal margin required on the qualifying basket (or participation units); and

(b) any excess of the exercise value of the call options over the normal loan value of the qualifying basket (or participation units);

and

(II) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[18]

(B) **Short put option combinations with short qualifying index baskets or short index participation units**

Where a customer account contains one of the following option related combinations:

- short index put options and short an equivalent number of qualifying baskets of index securities; or

- short index put options and short an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or

- short index participation unit put options and short an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or

- short index participation unit put options and short an equivalent number of index participation units;

the minimum ~~credit~~margin required shall be the greater of:~~credit required on the qualifying basket (or participation units), using the greater of the market value of the qualifying basket (or participation units) or the exercise value of the put options.~~

(I) the lesser of:

(a) the normal margin required on the qualifying basket (or participation units); and

(b) any excess of the normal credit required on the qualifying basket (or participation units) over the exercise value of the put options;

[18] The current approach is to require margin based on the floating margin rate multiplied by the lesser of: (i) the market value of the index basket or index participation unit, and (ii) the exercise value of the call options. Under this approach, where the options are either at-the-money or in-the-money, the margin required is the floating margin rate multiplied by the exercise value of the call options no matter how in-the-money the call options may be. This leads to significantly higher than necessary margin requirements for offsets involving options that are deep in-the-money (i.e., where the security market value is at least the floating margin rate percentage above the exercise value of the call option). The proposed requirement would limit the margin requirement for an offset involving a deep in-the-money call options to the maximum loss that would be experienced with a price drop equal to the floating margin rate percentage.

and

(II) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[19]

(C) **Long call option combinations with short qualifying index baskets or short index participation units**

Where a customer account contains one of the following option related combinations:

- long index call options and short an equivalent number of qualifying baskets of index securities; or
- long index call options and short an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or
- long index participation unit call options and short an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or
- long index participation unit call options and short an equivalent number of index participation units;

the minimum credit required shall be the sum of:

(I) 100% of the market value of the call options, and

(II) the greater of:

(a) the lesser of:

(i) the aggregate exercise value of the call options; and

(ii) the normal credit required on the qualifying basket (or participation units);

(b) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

(D) **Long put option combinations with long qualifying index baskets or long index participation units**

Where a customer account contains one of the following option related combinations:

- long index put options and long an equivalent number of qualifying baskets of index securities; or
- long index put options and long an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or
- long index participation unit put options and long an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or

[19] The current approach is to require margin based on the floating margin rate multiplied by the greater of: (i) the market value of the index basket or index participation unit, and (ii) the exercise value of the put option. Under this approach where the option is either at-the-money or in-the-money, the margin required is exercise value of the put option no matter how in-the-money the put option may be. This leads to significantly higher than necessary margin requirements for offsets involving options that are deep in-the-money (i.e., where the security market value is at least the floating margin rate percentage below the exercise value of the put option). The proposed requirement would limit the margin requirement for an offset involving a deep in-the-money put option to the maximum loss that would be experienced with a price increase equal to the floating margin rate percentage.

- long index participation unit put options and long an equivalent number of index participation units;

the minimum margin required shall be the greater of:

~~(I) the sum of:~~

~~(a) 100% of the market value of the put options; and~~

~~(b) the lesser of:~~

~~(i) the normal margin required on the qualifying basket (or participation units); and~~

~~(ii) any excess of the market value of the qualifying basket (or participation units) and over the aggregate exercise value of the put options;~~

~~and;~~

~~(II) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.~~

(I) the lesser of:

(a) the normal margin required on the qualifying basket (or participation units); and

(b) the excess of the combined market value of the qualifying basket (or participation units) and the put option over the aggregate exercise value of the put option;

and;

(II) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units[20]

(E) **Conversion or long tripo combinations**

Where a customer account contains one of the following option related combinations:

- long a qualifying basket of index securities, long an equivalent number of index put options and short an equivalent number of index call options (Note: Subject to incremental margin where qualifying basket is imperfect); or

- long index participation units, long an equivalent number of index put options and short an equivalent number of index call options (Note: Subject to tracking error minimum margin); or

- long a qualifying basket of index securities, long an equivalent number of index participation unit put options and short an equivalent number of index participation unit call options (Note: Subject to incremental margin where qualifying basket is imperfect and subject to tracking error minimum margin); or

20 The current approach gives no loan value to the intrinsic value of the put option. As a result, in situations where the put option is in-the-money, the net loan value granted to the combined long index basket or index participation unit and long put options positions may be significantly less than the exercise value of the put option. The proposed approach would effectively only require margin on an offset involving an in-the-money put option to the extent of any time value.

- long a qualifying basket of index securities, long an equivalent number of index participation unit put options and short an equivalent number of index participation unit call options;

the minimum margin required shall be the sum of:

(I) where applicable, the calculated incremental margin rate for the qualifying basket of index securities, multiplied by the market value of the qualifying basket.

and;

(II) the greater of:

(a) the sum of:

(i) 100% of the market value of the long put options; minus

(ii) 100% of the market value of the short call options; plus

(iii) the difference, plus or minus, between the market value of the qualifying basket (or participation units) and the aggregate exercise value of the long put options, where the aggregate exercise value used in the calculation cannot be greater than the aggregate exercise value of the call options.

and;

(b) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[21]

(F) **Specific reconversion or short tripo combinations**

Where a customer account contains one of the following option related combinations:

- short a qualifying basket of index securities, short an equivalent number of index put options and long an equivalent number of index call options (Note: Subject to incremental margin where qualifying basket is imperfect); or

- short index participation units, short an equivalent number of index put options and long an equivalent number of index call options (Note: Subject to tracking error minimum margin); or

- short a qualifying basket of index securities, short an equivalent number of index participation unit put options and long an equivalent number of index participation unit call options (Note: Subject to incremental margin where qualifying basket is imperfect and subject to tracking error minimum margin); or

- short index participation units, short an equivalent number of index participation unit put options and long an equivalent number of index participation unit call options;

the minimum margin required shall be the sum of:

(I) where applicable, the calculated incremental margin rate for the qualifying basket of index securities, multiplied by the market value of the qualifying basket.

and;

(II) the greater of:

[21] Proposed that existing offset for Member firm account positions be made available for customer account positions.

(a) the sum of:

(i) 100% of the market value of the long call options; minus

(ii) 100% of the market value of the short put options; plus

(iii) the difference, plus or minus, between the aggregate exercise value of the long call options and the market value of the qualifying basket (or participation units), where the aggregate exercise value used in the calculation cannot be greater than the aggregate exercise value of the put options.

and;

(b) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[22]

(iv) **Index basket combinations with index participation units**

(A) **Long qualifying index basket offset with short index participation units**

Where a position in a qualifying basket of index securities is carried long in a customer's account and the account is also short an equivalent number of index participation units, the margin required shall be the sum of the published tracking error margin rate plus the calculated incremental basket margin rate for the qualifying basket, multiplied by the market value of the participation units.

(B) **Short qualifying index basket offset with long index participation units**

Where a position in a qualifying basket of index securities is carried short in a customer's account and the account is also long an equivalent number of index participation units, the margin required shall be the sum of:

(I) the tracking error margin rate, unless the short basket is of size sufficient to comprise a basket of securities or multiple thereof required to obtain the participation units;

and;

(II) the calculated incremental basket margin rate for the qualifying basket;

multiplied by the market value of the participation units.

(v) **Index futures contract combinations with index baskets and index participation units**

Where a customer account contains one of the following futures related combinations:

- long (or short) a qualifying basket of index securities and short (or long) an equivalent number of index futures contracts; or
- long (or short) index participation units and short (or long) an equivalent number of index futures contracts;

the margin required shall be the published tracking error margin rate plus the calculated incremental basket margin rate for the qualifying basket (not applicable if hedging with participation units), multiplied by the market value of the qualifying basket (or participation units).

[22] Proposed that existing offset for Member firm account positions be made available for customer account positions.

(vi) **Index option combinations with index futures contracts**

With respect to index options, index participation units options and index futures contracts held in customer accounts, where, the option contracts and the futures contracts have the same settlement date, or can be settled in either of the two nearest contract months, the option contracts and the futures contracts may be offset as follows:

(A) **Short index call options or short index participation unit call options - long index futures contracts**

Where a customer account contains one of the following futures and options related combinations:

- short index call options and long index futures contracts (Note: Subject to tracking error minimum margin); or

- short index participation unit call options and long index futures contracts (Note: Subject to tracking error minimum margin);

the minimum margin required shall be the greater of:

(I) (a) the margin otherwise required on the futures contracts; less

(b) the aggregate market value of the short call options;

and;

(II) the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.[23]

(B) **Short index put options or short index participation unit put options - short index futures contracts**

Where a customer account contains one of the following futures and options related combinations:

- short index put options and short index futures contracts (Note: Subject to tracking error minimum margin); or

- short index participation unit put options and short index futures contracts (Note: Subject to tracking error minimum margin);

the minimum margin required shall be the greater of:

(I) (a) the margin otherwise required on the futures contracts, less

(b) the aggregate market value of the short put options;

and;

(II) the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.[24]

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23 Proposed that existing offset for Member firm account positions be made available for customer account positions.

24 Proposed that existing offset for Member firm account positions be made available for customer account positions.

(C) **Long index call options or long index participation unit call options - short index futures contracts**

Where a customer account contains one of the following futures and options related combinations:

- long index call options and short index futures contracts (Note: Subject to tracking error minimum margin); or

- long index participation unit call options and short index futures contracts (Note: Subject to tracking error minimum margin);

the minimum margin required shall be:

(I) Out-of-the-money position

The aggregate exercise value of the long call options less the daily settlement value of the short futures contracts, to a maximum of the margin required on unhedged futures contracts, plus the aggregate market value of the call options;

(II) In-the-money or at-the-money position

The amount by which the aggregate market value of the call options exceeds the aggregate in-the-money amount of the call options;

but in no case may the margin required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.[25]

(D) **Long index put options or long index participation unit put options - long index futures contracts**

Where a customer account contains one of the following futures and options related combinations:

- long index put options and long index futures contracts (Note: Subject to tracking error minimum margin); or

- long index participation unit put options and long index futures contracts (Note: Subject to tracking error minimum margin);

the minimum margin required shall be:

(I) Out-of-the-money position

The daily settlement value of the long futures contracts less the aggregate exercise value of the long put options, to a maximum of the margin required on unhedged futures contracts, plus the aggregate market value of the put options;

(II) In-the-money or at-the-money option position

The amount by which the aggregate market value of the put options exceeds the aggregate in-the-money amount of the put options;

but in no case may the margin required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.[26]

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[25] Proposed that existing offset for Member firm account positions be made available for customer account positions.

[26] Proposed that existing offset for Member firm account positions be made available for customer account positions.

(E) **Conversion or long tripo combination involving index options or index participation unit options and index futures contracts**

Where a customer account contains one of the following tripo combinations:

- long index futures contracts and long index put options and short index call options with the same expiry date (Note: Subject to tracking error minimum margin); or

- long index futures contracts and long index participation unit put options and short index participation unit call options with the same expiry date (Note: Subject to tracking error minimum margin);

the minimum margin required shall be:

(I) the greater of the difference, plus or minus, between the daily settlement value of the long futures contracts and the aggregate exercise value of the long put options or the short call options, plus

(II) the aggregate net market value of the put and call options.

but in no case may the margin required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.[27]

(F) **Reconversion or short tripo combination involving index options or index participation unit options and index futures contracts**

Where a customer account contains one of the following tripo combinations:

- short index futures contracts and long index call options and short index put options with the same expiry date (Note: Subject to tracking error minimum margin); or

- short index futures contracts and long index participation unit call options and short index participation unit put options with the same expiry date (Note: Subject to tracking error minimum margin);

the minimum margin required shall be:

(I) the greater of the difference, plus or minus, between the aggregate exercise value of the long call options or short put options and the daily settlement value of the short futures contracts, plus

(II) the aggregate net market value of the call and put options.

but in no case may the margin required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.[28]

(G) With respect to the offsets enumerated in clauses (A) to (F), partial offsets are not permitted.

(i) **Cross index offset combinations involving index products**

Offsets are currently not available for offset positions in customer accounts involving products based on two different indices.

(j) **Margin requirements for positions in and offsets involving OCC options**

The margin requirements for OCC options shall be the same as set out in the remainder of Regulation 100.9."

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27 Proposed that existing offset for Member firm account positions be made available for customer account positions.

28 Proposed that existing offset for Member firm account positions be made available for customer account positions.

2. Regulation 100.10 is hereby repealed and replaced as follows:

"**100.10. Members' positions in options, futures and other equity-related derivatives**

(a) For the purposes of this Regulation 100.10:

(i) the terms "aggregate current value", "aggregate exercise value", "call option", "class of options", "clearing corporation", "customer account", "escrow receipt", "exercise price", "firm account", "floating margin rate", "incremental basket margin rate", "index ", "index option", "in-the-money", "market maker account", "non-customer account", "OCC option", "option", "out-of-the-money", "participation unit", "participation unit option", "premium", "put option", "qualifying basket of index securities", "tracking error margin rate", "underlying interest" and "unit of trading" mean the same as set out in Regulation 100.9(a).

(ii) the term "Member account" means all non-customer accounts including firm accounts, market maker accounts and specialist accounts.

(b) **Exchange traded options – general capital requirements**

The capital requirements with respect to options and options-related positions in securities held in Member accounts shall be as follows:

(i) in the treatment of spreads, the long position may expire before the short position;

(ii) for any short position carried for a customer or non-customer account where the account has not provided required margin, any shortfall will be charged against the Member's capital;

(iii) where a Member account holds both options and OCC options that have the same underlying interest, the OCC options may be considered to be options for the purposes of the calculation of the capital requirements for the account under this Regulation 100.10; and

(iv) from time to time the Association may impose special capital requirements with respect to particular options or particular positions in options.

(c) **Long option positions**

(i) For Member accounts, subject to sub-paragraph (ii), the capital required for a long option is the market value of the option. Where the option premium is $1.00 or more, the capital required for the option may be reduced by 50% of any in-the-money amount associated with the option.

(ii) Where in the case of equity options, the underlying interest in respect of a long call is the subject of a legal and binding cash take-over bid for which all conditions have been met, the capital required on such call shall be the market value of the call less the amount by which the amount offered exceeds the exercise price of the call. Where such a take-over bid is made for less than 100% of the issued and outstanding securities, the capital requirement shall be applied pro rata in the same proportion as the offer and paragraph (c)(i) shall apply to the balance.

(d) **Short option positions**

The capital requirement which must be maintained in respect of an option carried short in a Member account shall be:

(i) (A) in the case of equity or equity participation unit options, the market value of the equivalent number of equity securities or participation units, multiplied by the underlying interest margin rate; or

(B) in the case of index participation unit options, the market value of the equivalent number of index participation units, multiplied by the floating margin rate; or

(C) in the case of index options, the aggregate current value of the index, multiplied by the floating margin rate;

minus;

(ii) any out-of-the-money amount associated with the option.

(e) **Covered option positions**

(i) No capital shall be required for a call option carried short in a Member account, which is covered by the deposit of an escrow receipt. The underlying interest deposited in respect of such options shall not be deemed to have any value for capital purposes.

Evidence of a deposit of the underlying interest shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Association. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation.

(ii) No capital shall be required for a put option carried short in a Member account which is covered by the deposit of an escrow receipt which certifies that acceptable government securities are being held by the issuer of the escrow receipt for the account of the Member. The acceptable government securities held on deposit:

(A) shall be government securities:

(I) which are acceptable forms of margin for the clearing corporation; and

(II) which mature within one year of their deposit; and

(B) shall not be deemed to have any value for margin purposes.

The aggregate exercise value of the short put options shall not be greater than 90% of the aggregate par value of the acceptable government securities held on deposit. Evidence of the deposit of the acceptable government securities shall be deemed an escrow receipt for the purposes hereof if the agreements required by the rules of the clearing corporation have been executed and delivered to the clearing corporation and if a copy thereof is available to the Association on request. The issuer of the escrow receipt covering the escrow deposit must be a financial institution approved by the clearing corporation; and

(iii) No capital shall be required for a put option carried short in a Member account if the Member has obtained a letter of guarantee, issued by a financial institution which has been authorized by the clearing corporation to issue escrow receipts, in a form satisfactory to the Association, and is:

(A) a bank which is a Canadian chartered bank or a Quebec savings bank; or

(B) a trust company which is licensed to do business in Canada, with a minimum paid-up capital and surplus of $5,000,000;

provided that the letter of guarantee certifies that the bank or trust company:

(C) holds on deposit for the account of the Member cash in the full amount of the aggregate exercise value of the put and that such amount will be paid to the clearing corporation against delivery of the underlying interest covered by the put; or

(D) unconditionally and irrevocably guarantees to pay to the clearing corporation the full amount of the aggregate exercise value of the put against delivery of the underlying interest covered by the put;

and further provided that the Member has delivered the letter of guarantee to the clearing corporation and the clearing corporation has accepted it as margin.

(f) **Option spreads and combinations**

(i) **Call spreads and put spreads**

Where a Member account contains one of the following spread pairings:

- long call option and short call option; or

- long put option and short put option;

the minimum capital required for the spread pairing shall be shall be the lesser of:

(A) the capital required on the short option pursuant to sub-paragraph 100.10(d)(i); or

(B) the spread loss amount, if any, that would result if both options were exercised.

(ii) **Short call – short put spreads**

Where a call option is carried short for a Member's account and the account is also short a put option on the same number of units of trading on the same underlying interest, the minimum capital required shall be the greater of:

(A) the greater of:

(I) the capital required on the call option position; or

(II) the capital required on the put option position; ~~plus~~

~~(B) any in-the-money amount associated with the position in (A) having the lower capital requirement.~~

and;

(B) the excess of the aggregate exercise value of the put option over the aggregate exercise value of the call option.[29]

(iii) **Long call – long put**

Where a call option is carried long for a Member's account and the account is also long a put option on the same number of units of trading on the same underlying interest, the minimum capital required shall be:

(A) 100% of the market value of the call option; plus

(B) 100% of the market value of the put option; minus

(C) the greater of:

(I) the amount by which the aggregate exercise value of the put option exceeds the aggregate exercise value of the call option; or

(II) 50% of the total of the amount by which each option is in-the-money.

(iv) **Long call – short call – long put**

Where a call option is carried long for a Member's account and the account is also short a call option and long a put option on the same number of units of trading on the same underlying interest, the minimum capital required shall be:

(A) 100% of the market value of the long call option; plus

(B) 100% of the market value of the long put option; minus

(C) 100% of the market value of the short call option; plus

[29] There is an anomaly in the current rule for spreads where both options are in-the-money and the calculated capital requirement for each individual short option is the same. The proposed amended rule assumes both options will be exercised if they are in-the-money and determines a capital requirement in this instance based on the difference between the exercise values of both options.

(D) the greater of:

(I) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the short call option; and

(II) any excess of the aggregate exercise value of the long call option over the aggregate exercise value of the long put option.

Where the amount calculated in (D) is negative, this amount may be applied against the capital charge.

(v) **Short call – long warrant**

Where a call option is carried short for a Member's account and the account is also long a warrant on the same number of units of trading on the same underlying interest, the minimum capital required shall be the sum of:

(A) the lesser of:

(I) the capital required for the call option pursuant to sub-paragraph 100.10(d)(i); or

(II) the spread loss amount, if any, that would result if both the option and the warrant were exercised.

and;

(B) the excess of the market value of the warrant over the in-the-money value of the warrant multiplied by 25%; and

(C) the in-the-money value of the warrant, multiplied by:

(I) 50%, where the expiration date of the warrant is 9 months or more away, or

(II) 100%, where the expiration date of the warrant is fewer than 9 months away.

The market value of any premium credit carried on the short call option may be used to reduce the capital required on the long warrants, but cannot reduce the capital required to less than zero.

(g) **Option and security combinations**

(i) **Short call – long underlying (or convertible) combination**

Where, in the case of equity or equity participation unit options, a call option is carried short in a Member's account and the account is also long an equivalent position in the underlying interest or, in the case of equity options in a security readily convertible or exchangeable (without restrictions other than the payment of consideration and within a reasonable time provided such time shall be prior to the expiration of the call option) into the underlying interest, or in the case of equity participation unit options in securities readily exchangeable into the underlying interest, the minimum capital required shall be the sum of:

~~(A) the capital required on the long security position, in the case of equity or equity participation unit options, based on the market price of such security or the exercise price of the short call, whichever is lower; and~~

~~(B) the amount, if applicable and if any, by which the subscription or conversion price of the long security exceeds the exercise price of the short call, multiplied by the unit of trading.~~

(A) the lesser of:

(I) the normal capital required on the underlying interest; and

(II) any excess of the aggregate exercise value of the call options over the normal loan value of the underlying interest;

and;

(B) where a convertible security or exchangeable security is held, the amount of the conversion loss as defined in Regulation 100.4H.[30]

The market value of any premium credit carried on the short call may be used to reduce the capital required on the long security, but cannot reduce the capital required to less than zero.

(ii) **Short put – Short underlying combination**

Where, in the case of equity or equity participation unit options, a put option is carried short in a Member's account and the account is also short an equivalent position in the underlying interest, ~~the capital required shall be the capital required on the short security position based on the market price of such security.~~the minimum capital required shall be the lesser of:

(A) the normal capital required on the underlying interest; and

(B) any excess of the normal capital required on the underlying interest over the in-the-money value, if any, of the put options.[31]

The market value on any premium credit carried on the short put may be used to reduce the capital required on the short security, but cannot reduce the capital required to less than zero.

(iii) **Long call – short underlying combination**

Where, in the case of equity or equity participation unit options, a call option is carried long in a Member's account and the account is also short an equivalent position in the underlying interest, the minimum capital required shall be the sum of:

(A) 100% of the market value of the long call option; plus

(B) the lesser of:

(I) any out-of-the-money value associated with the call option; or

(II) the normal capital required on the underlying interest.

Where the call option is in-the-money, this in-the-money value may be applied against the capital required, but cannot reduce the capital required to less than zero.

(iv) **Long put – long underlying combination**

Where, in the case of equity or equity participation unit options, a put option is carried long in a Member's account and the account is also long an equivalent position in the underlying interest, the minimum capital required shall be the lesser of:

~~(A) 100% of the market value of the long put option; plus~~

~~(B) the lesser of:~~

~~(I) any out of the money value associated with the put option; or~~

30 The current approach is to require capital based on 25% of the lesser of: (i) the market value of the stock, and (ii) the exercise value of the call options. Under this approach, where the options are either at-the-money or in-the-money, the capital required is 25% of the exercise value of the call options no matter how in-the-money the call options may be. This leads to significantly higher than necessary capital requirements for offsets involving options that are deep in-the-money (i.e., where the security market value is at least 25% above the exercise value of the call options). The proposed requirement would limit the capital requirement for an offset involving a deep in-the-money call options to the maximum loss that would be experienced with a 25% price drop.

31 The current approach is to require capital based on 25% of the greater of: (i) the market value of the stock, and (ii) the exercise value of the put option. Under this approach where the option is either at-the-money or in-the-money, the capital required is exercise value of the put option no matter how in-the-money the put option may be. This leads to significantly higher than necessary capital requirements for hedges involving options that are deep in-the-money (i.e., where the security market value is at least 25% below the exercise value of the put option). The proposed requirement would limit the capital requirement for an offset involving a deep in-the-money put to the maximum loss that would be experienced with a 25% price increase.

~~(II) the capital requirement on the long security position.~~

(A) the normal capital required on the underlying interest; and

(B) the excess of the combined market value of the underlying interest and the put option over the aggregate exercise value of the put option.[32]

Where the put option is in-the-money, this in-the-money value may be applied against the capital required, but cannot reduce the capital required to less than zero.

(v) **Conversion or long tripo combination**

Where, in the case of equity or participation unit options, a position in an underlying interest is carried long in a Member's account and the account is also long an equivalent position in put options and short an equivalent position in call options, the minimum capital required shall be:

(A) 100% of the market value of the long put options; minus

(B) 100% of the market value of the short call options; plus

(C) the difference, plus or minus, between the market value of the qualifying basket (or participation units) and the aggregate exercise value of the long put options, ~~any out of the money value associated with the put options~~ where the aggregate exercise ~~price~~value used in the calculation cannot be greater than the aggregate exercise ~~price~~value of the call options.

~~Where the put options are in the money, this in the money value may be applied against the capital required.~~[33]

(vi) **Reconversion or short tripo combination**

Where, in the case of equity or participation unit options, a position in an underlying interest is carried short in a Member's account and the account is also long an equivalent position in call options and short an equivalent position in put options, the minimum capital required shall be:

(A) 100% of the market value of the long call options; minus

(B) 100% of the market value of the short put options; plus

(C) the difference, plus or minus, between the aggregate exercise value of the long call options and the market value of the qualifying basket (or participation units), ~~any out-of-the-money value associated with the call options~~ where the aggregate exercise ~~price~~value used in the calculation cannot be greater than the aggregate exercise ~~price~~value of the put options.

~~Where the call options are in the money, this in the money value may be applied against the capital required.~~[34]

(h) **Offset combinations involving index products**

(i) **Option spreads**

In addition to the option spreads permitted in Regulation 100.10(f), the following additional option spread strategies are available for positions in index options and index participation unit options:

(A) **Box spread**

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32 The current approach gives no loan value to the intrinsic value of the put option. As a result, in situations where the put option is in-the-money, the net loan value granted to the combined long stock/long put options positions may be significantly less than the exercise value of the put option. The proposed approach would effectively only require capital on an offset involving an in-the-money put option to the extent of any time value.

33 Rewording changes only.

34 Rewording changes only.

Where a Member account contains one of the following box spread combinations:

- box spread involving index options; or
- box spread involving index participation unit options;

such that a Member holds a long and short call option and a long and short put option with the same expiry month and where the long call option and short put option, and short call option and long put option have the same strike price, the minimum capital required shall be the lesser of:

(I) the difference, plus or minus, between the aggregate exercise value of the long call options and the aggregate exercise value of the long put options; and

(II) the net market value of the options.

(B) **Long butterfly spread**

Where a Member account contains one of the following butterfly spread combinations:

- long butterfly spread involving index options; or
- long butterfly spread involving index participation unit options;

such that a Member holds a short position in two call options (or put options) and the short calls (or short puts) are at a middle strike price and are flanked on either side by a long call option (or long put option) having a lower and higher strike price respectively, the minimum capital required shall be the net market value of the short and long call options (or put options).

(C) **Short butterfly spread**

Where a Member account contains one of the following butterfly spread combinations:

- short butterfly spread involving index options; or
- short butterfly spread involving index participation unit options;

such that a Member holds a long position in two call options (or put options) and the long call options (or long put options) are at a middle strike price and are flanked on either side by a short call option (or short put option) having a lower and higher strike price respectively, the minimum capital required shall be the amount, if any, by which the exercise value of the long call options (or long put options) exceeds the exercise value of the short call options (or short put options).

(ii) **Index option and index participation unit option spread combinations**

(A) **Call spread combinations and put spread combinations**

Where a Member account contains one of the following spread combinations:

- long index participation unit call option and short index call option; or
- long index call option and short index participation unit call option; or
- long index participation unit put option and short index put option; or
- long index put option and short index participation unit put option;

and the short option expires on or before the date of expiration of the long option, the minimum capital required for the spread combination shall be the lesser of:

(I) the capital required on the short option pursuant to sub-paragraph 100.10(d)(i); and

(II) the greater of:

(a) spread loss amount, if any, that would result if both options were exercised; and

(b) the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

(B) **Short call – short put spread combinations**

Where a Member account contains one of the following spread combinations:

- short index participation unit call option and short index put option; or
- short index call option and short index participation unit put option;

the minimum capital required shall be the greatest of:

~~(I) the excess of the aggregate exercise value of the put options over the aggregate exercise value of the call options plus the net market value of the options; plus~~

~~(II) the greater of:~~

~~(a) the capital otherwise required on the short put options; or~~

~~(b) the capital otherwise required on the short call options; plus~~

~~(III) the market value of the short option with the lesser capital required;~~

(I) the greater of:

(a) the capital required on the short call option position; or

(b) the capital required on the short put option position;

and;

(II) the excess of the aggregate exercise value of the short put option over the aggregate exercise value of the short call option;

and;

(III) the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

~~but in no case may the capital required be less than the tracking error margin rate multiplied by the market value of the underlying participation units.~~[35]

(iii) **Index option combinations with index baskets and index participation units**

(A) **Short call option combinations with long qualifying index baskets or long index participation units**

Where a Member account contains one of the following option related combinations:

35 There is an anomaly in the current rule for spreads where both options are in-the-money and the calculated capital requirement for each individual short option is the same. The proposed amended rule assumes both options will be exercised if they are in-the-money and determines a capital requirement in this instance based on the difference between the exercise values of both options.

- short index call options and long an equivalent number of qualifying baskets of index securities; or

- short index call options and long an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or

- short index participation unit call options and long an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or

- short index participation unit call options and long an equivalent number of index participation units;

the minimum capital required shall be the greater of:

(I) the lesser of:

~~(I)~~(a) the normal capital required on the qualifying basket (or participation units); ~~minus~~and

~~(II) the market value of the short call options;~~

(b) any excess of the exercise value of the call options over the normal loan value of the qualifying basket (or participation units);

and

(II) ~~but, in no event shall the capital required be less than~~where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[36]

(B) **Short put option combinations with short qualifying index baskets or short index participation units**

Where a Member account contains one of the following option related combinations:

- short index put options and short an equivalent number of qualifying baskets of index securities; or

- short index put options and short an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or

- short index participation unit put options and short an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or
- short index participation unit put options and short an equivalent number of index participation units;

the minimum capital required shall be the greater of:

(I) the lesser of:

~~(I) the normal capital required on the qualifying basket of index securities; minus~~

~~(II) the market value of the short put options;~~

[36] The current approach is to require capital based on the floating margin rate multiplied by the market value of the index basket or index participation unit. The proposed requirement would limit the margin requirement for an offset involving a deep in-the-money call options to the maximum loss that would be experienced with a price drop equal to the floating margin rate percentage.

(a) the normal capital required on the qualifying basket (or participation units); and

(b) any excess of the normal credit required on the underlying interest over the exercise value of the put options.

(II) ~~but, in no event shall the capital required be less than~~where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[37]

(C) **Long call option combinations with short qualifying index baskets or short index participation units**

Where a Member account contains one of the following option related combinations:

- long index call options and short an equivalent number of qualifying baskets of index securities; or
- long index call options and short an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or
- long index participation unit call options and short an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or
- long index participation unit call options and short an equivalent number of index participation units;

the minimum capital required shall be the sum of:

(I) 100% of the market value of the call options, and

(II) the greater of:

(a) the lesser of:

(i) the aggregate exercise value of the call options less the market value of the qualifying basket (or participation units); and

(ii) the normal capital required on the qualifying basket (or participation units);

(b) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

(D) **Long put option combinations with long qualifying index baskets or long index participation units**

Where a Member account contains one of the following option related combinations:

- long index put options and long an equivalent number of qualifying baskets of index securities; or
- long index put options and long an equivalent number of index participation units (Note: Subject to tracking error minimum margin); or

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37 The current approach is to require capital based on the floating margin rate multiplied by the market value of the index basket or index participation unit. The proposed requirement would limit the capital requirement for an offset involving a deep in-the-money put to the maximum loss that would be experienced with a price increase equal to the floating margin rate percentage.

- long index participation unit put options and long an equivalent number of qualifying baskets of index securities (Note: Subject to tracking error minimum margin); or

- long index participation unit put options and long an equivalent number of index participation units;

the minimum capital required shall be the greater of:

~~(I) 100% of the market value of the long put options; plus~~

~~(II) the lesser of:~~

~~(a) the normal capital required on the qualifying basket (or participation units); or~~

~~(b) the market value of the qualifying basket (or participation units) less the exercise value of the put options.~~

(I) the lesser of:

(a) the normal capital required on the qualifying basket (or participation units); and

(b) the excess of the combined market value of the qualifying basket (or participation units) and the put option over the aggregate exercise value of the put option;

and;

(II) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.[38]

(E) **Conversion or long tripo combinations**

Where a Member account contains one of the following option related combinations:

- long a qualifying basket of index securities, long an equivalent number of index put options and short an equivalent number of index call options (Note: Subject to incremental margin where qualifying basket is imperfect); or

- long index participation units, long an equivalent number of index put options and short an equivalent number of index call options (Note: Subject to tracking error minimum margin); or

- long a qualifying basket of index securities, long an equivalent number of index participation unit put options and short an equivalent number of index participation unit call options (Note: Subject to incremental margin where qualifying basket is imperfect and subject to tracking error minimum margin); or

- long index participation units, long an equivalent number of index participation unit put options and short an equivalent number of index participation unit call options;

the minimum capital required shall be the sum of:

(I) where applicable, the calculated incremental margin rate for the qualifying basket of index securities, multiplied by the market value of the qualifying basket.

[38] The current approach gives no loan value to the intrinsic value of the put option. As a result, in situations where the put option is in-the-money, the net loan value granted to the combined long stock/long put options positions may be significantly less than the exercise value of the put option. The proposed approach would effectively only require capital on an offset involving an in-the-money put option to the extent of any time value.

and;

(II) the greater of:

(a) the sum of:

(i) 100% of the market value of the long put options; minus

(ii) 100% of the market value of the short call options; plus

(iii) the difference, plus or minus, between the market value of the qualifying basket (or participation units) and the aggregate exercise value of the long put options, ~~any out-of-the-money value associated with the put options~~ where the aggregate exercise ~~price~~value used in the calculation cannot be greater than the aggregate exercise ~~price~~value of the call options.

and;

(b) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

~~Where the put options are in-the-money, this in-the-money value may be applied against the capital required.~~[39]

~~(I) **Long qualifying index basket or long index participation units - long index put options - short index call options**~~

~~Where a Member holds a long basket of equity securities (or index participation units) offset by an equivalent number of long index put options and offset by an equivalent number of short index call options, and where the long put options and the short call options have the same strike price and expiry date, the capital required is equivalent to the capital required for a long qualifying basket (or participation units) offset by an equivalent number of short index futures contracts as set out in Regulation 100.10(h)(v)(A).~~

~~(II) **Long qualifying index basket - long index participation unit put options - short index participation unit call options**~~

~~Where a Member holds a long basket of equity securities offset by an equivalent number of long index participation unit put options and by an equivalent number of short index participation unit call options, and where the long put options and the short call options have the same strike price and expiry date, the capital required is equivalent to the capital required for a long qualifying basket offset by an equivalent number of short index participation units as set out in Regulation 100.10(h)(iv)(A).~~

(F) **Reconversion or short tripo combinations**

Where a Member account contains one of the following option related combinations:

- short a qualifying basket of index securities, short an equivalent number of index put options and long an equivalent number of index call options (Note: Subject to incremental margin where qualifying basket is imperfect); or

- short index participation units, short an equivalent number of index put options and long an equivalent number of index call options (Note: Subject to tracking error minimum margin); or

39 Reflects wording changes made to general long tripo rule set out in proposed Reg. 100.10(g)(v). Replaces existing Regulations100.10(c)(viii)(F) and 100.10(c)(ix)(H) which only apply to long tripos where the strike price for the call option and the put option are the same.

- short a qualifying basket of index securities, short an equivalent number of index participation unit put options and long an equivalent number of index participation unit call options (Note: Subject to incremental margin where qualifying basket is imperfect and subject to tracking error minimum margin); or

- short index participation units, short an equivalent number of index participation unit put options and long an equivalent number of index participation unit call options;

the minimum capital required shall be the sum of:

(I) where applicable, the calculated incremental margin rate for the qualifying basket of index securities, multiplied by the market value of the qualifying basket.

and;

(II) the greater of:

(a) the sum of:

(i) 100% of the market value of the long call options; minus

(ii) 100% of the market value of the short put options; plus

(iii) the difference, plus or minus, between the aggregate exercise value of the long call options and the market value of the qualifying basket (or participation units), ~~any out of the money value associated with the call options~~ where the aggregate exercise ~~price~~value used in the calculation cannot be greater than the aggregate exercise ~~price~~value of the put options.

and;

(b) where applicable, the published tracking error margin rate for a spread between the index and the related participation units, multiplied by the market value of the underlying participation units.

~~Where the call options are in-the-money, this in-the-money value may be applied against the capital required.~~[40]

~~(I) **Short qualifying index basket or short index participation units - long index call options - short index put options**~~

~~Where a Member holds a short basket of equity securities (or index participation units) offset by an equivalent number of long index call options and offset by an equivalent number of short index put options, and where the long call options and short put options have the same strike price and expiry date, the capital required is equivalent to the capital required for a short qualifying basket (or participation units) offset an equivalent number of long index futures contracts as set out in Regulation 100.10(h)(vi)(A) (or Regulation 100.10(h)(vi)(A) in the case of participation units).~~

~~(II) **Short qualifying index basket - long index participation unit call options - short index participation unit put options**~~

~~Where a Member holds a short basket of equity securities offset by an equivalent number of long index participation unit call options and by an equivalent number of short index participation unit put options, and where the long call options and the short put options have the same strike price and expiry date, the capital required~~

40 Reflects wording changes made to general short tripo rule set out in proposed Reg. 100.10(g)(vi). Replaces existing Regulations 100.10(c)(viii)(E) and 100.10(c)(ix)(G) which only apply to short tripos where the strike price for the call option and the put option are the same.

~~shall be equivalent to the capital required where a Member is short a qualifying basket and long participation units as set out in Regulation 100.10(h)(iv)(B).~~

(G) **Offsets involving options relating to a commitment to purchase index participation units**

(I) **Short index participation unit call options - long qualifying index basket - commitment to purchase index participation units**

Where a Member holds a long position in a qualifying basket of index securities offset by an equivalent number of short index participation unit call options, and has a commitment to purchase a new issue of index participation units pursuant to an underwriting agreement and the underwriting period expires after the expiry date of the short call options, provided the size of the long qualifying basket does not exceed the size of the Member's underwriting commitment to purchase index participation units, the capital required shall be the normal capital required on the long qualifying basket less the market value of the short call options, but in no event shall the capital required be less than zero.

(II) **Long index participation unit put options - long qualifying index basket - commitment to purchase index participation units**

Where a Member holds a long position in a qualifying basket of index securities offset by an equivalent number of long index participation unit put options, and has a commitment to purchase a new issue of index participation units pursuant to an underwriting agreement and the underwriting period expires after the expiry date of the long put options, provided the size of the long qualifying basket does not exceed the size of the Member's underwriting commitment to purchase index participation units, the capital required shall be:

(a) 100% of the market value of the long put options; plus

(b) the lesser of:

(i) the normal capital required on the long qualifying basket, or

(ii) the market value of the qualifying basket less the aggregate exercise value of the put options.

A negative value calculated under (b)(ii) may reduce the capital required on the put options, but in no event shall the capital required be less than zero.

(iv) **Index basket combinations with index participation units**

(A) **Long qualifying index basket offset with short index participation units**

Where a position in a qualifying basket of index securities is carried long in a Member's account and the account is also short an equivalent number of index participation units, the capital required shall be the sum of the published tracking error margin rate plus the calculated incremental basket margin rate for the qualifying basket, multiplied by the market value of the participation units.

(B) **Short qualifying index basket offset with long index participation units**

Where a position in a qualifying basket of index securities is carried short in a Member's account and the account is also long an equivalent number of index participation units, the capital required shall be the sum of:

(I) the tracking error margin rate, unless the short basket is of size sufficient to comprise a basket of securities or multiple thereof required to obtain the participation units;

and;

(II) the calculated incremental basket margin rate for the qualifying basket;

multiplied by the market value of the participation units.

(C) **Offsets involving index participation units relating to a commitment to purchase index participation units**

Short index participation units – long qualifying index basket – commitment to purchase index participation units

Where a Member has a commitment pursuant to an underwriting agreement to purchase a new issue of index participation units, and holds an equivalent long position in a qualifying basket of index securities and also holds an equivalent number of short index participation units, no capital is required, provided the long basket:

(a) is of size sufficient to comprise a basket of securities or multiple thereof required to obtain the participation units; and

(b) does not exceed the Member's underwriting commitment to purchase the participation units.

(v) **Index futures contract combinations with index baskets and index participation units**

Where a Member account contains one of the following futures related combinations:

- long (or short) a qualifying basket of index securities and short (or long) an equivalent number of index futures contracts; or

- long (or short) index participation units and short (or long) an equivalent number of index futures contracts;

the capital required shall be the published tracking error margin rate plus the calculated incremental basket margin rate for the qualifying basket (not applicable if hedging with participation units), multiplied by the market value of the qualifying basket (or participation units).

(vi) **Index option combinations with index futures contracts**

With respect to index options, index participation units options and index futures contracts held in Member accounts, where, the option contracts and the futures contracts have the same settlement date, or can be settled in either of the two nearest contract months, the option contracts and the futures contracts may be offset as follows:

(A) **Short index call options or short index participation unit call options - long index futures contracts**

Where a Member account contains one of the following futures and options related combinations:

- short index call options and long index futures contracts (Note: Subject to tracking error minimum margin); or

- short index participation unit call options and long index futures contracts (Note: Subject to tracking error minimum margin);

the minimum capital required shall be the greater of:

(I) (a) the capital otherwise required on the futures contracts; less

(b) the aggregate market value of the short call options;

and;

(II) the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.

(B) **Short index put options or short index participation unit put options - short index futures contracts**

Where a Member account contains one of the following futures and options related combinations:

- short index put options and short index futures contracts (Note: Subject to tracking error minimum margin); or
- short index participation unit put options and short index futures contracts (Note: Subject to tracking error minimum margin);

the minimum capital required shall be the greater of:

(I) (a) the capital otherwise required on the futures contracts, less

(b) the aggregate market value of the short put options;

and;

(II) the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.

(C) **Long index call options or long index participation unit call options - short index futures contracts**

Where a Member account contains one of the following futures and options related combinations:

- long index call options and short index futures contracts (Note: Subject to tracking error minimum margin); or
- long index participation unit call options and short index futures contracts (Note: Subject to tracking error minimum margin);

the minimum capital required shall be:

(I) Out-of-the-money position

The aggregate exercise value of the long call options less the daily settlement value of the short futures contracts, to a maximum of the capital required on un-hedged futures contracts, plus the aggregate market value of the call options;

(II) In-the-money or at-the-money position

The amount by which the aggregate market value of the call options exceeds the aggregate in-the-money amount of the call options;

but in no case may the capital required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.

(D) **Long index put options or long index participation unit put options - long index futures contracts**

Where a Member account contains one of the following futures and options related combinations:

- long index put options and long index futures contracts (Note: Subject to tracking error minimum margin); or

- long index participation unit put options and long index futures contracts (Note: Subject to tracking error minimum margin);

the minimum capital required shall be:

(I) Out-of-the-money position

The daily settlement value of the long futures contracts less the aggregate exercise value of the long put options, to a maximum of the capital required on un-hedged futures contracts, plus the aggregate market value of the put options;

(II) In-the-money or at-the-money option position

The amount by which the aggregate market value of the put options exceeds the aggregate in-the-money amount of the put options;

but in no case may the capital required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.

(E) **Conversion or long tripo combination involving index options or index participation unit options and index futures contracts**

Where a Member account contains one of the following tripo combinations:

- long index futures contracts and long index put options and short index call options with the same expiry date (Note: Subject to tracking error minimum margin); or

- long index futures contracts and long index participation unit put options and short index participation unit call options with the same expiry date (Note: Subject to tracking error minimum margin);

the minimum capital required shall be:

(I) the greater of the difference, plus or minus, between the daily settlement value of the long futures contracts and the aggregate exercise value of the long put options or the short call options, plus

(II) the aggregate net market value of the put and call options.

but in no case may the capital required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.

(F) **Reconversion or short tripo combination involving index options or index participation unit options and index futures contracts**

Where a Member account contains one of the following tripo combinations:

- short index futures contracts and long index call options and short index put options with the same expiry date (Note: Subject to tracking error minimum margin); or

- short index futures contracts and long index participation unit call options and short index put options with the same expiry date (Note: Subject to tracking error minimum margin);

the minimum capital required shall be:

(I) the greater of the difference, plus or minus, between the aggregate exercise value of the long call options or short put options and the daily settlement value of the short futures contracts, plus

(II) the aggregate net market value of the call and put options.

but in no case may the capital required be less than the published tracking error margin rate for a spread between the future and the related index or participation units, multiplied by the market value of the underlying qualifying basket or participation units.

(G) With respect to the offsets enumerated in clauses (A) to (F), partial offsets are not permitted.

(i) **Cross index offset combinations involving index products**

Offsets involving products based on two different indices may be permitted provided:

(i) both indices qualify as an index as defined in Regulation 100.9(a)(xii);

(ii) there is significant performance correlation between the indices; and

(iii) the Association has made available a published tracking error margin rate for cross index offsets involving the two indices.

Where offsets involving products based on two different indices are permitted the capital requirements set out in Regulation 100.10(h) may be used provided that any capital requirement calculated shall be no less than the published tracking error margin rate for cross index offsets involving the two indices.

(j) **Capital requirements for positions in and offsets involving OCC options**

For Member inventory and other firm accounts, the capital charge for positions in and offsets involving OCC options shall be the same as set out in the remainder of Regulation 100.10."

PASSED AND ENACTED BY THE Board of Directors this 15th day of April 2003, to be effective on a date to be determined by Association staff.

Existing Offset Strategies that are proposed to be made available in Customer Accounts

Individual Equity Derivative Offsets

1. Long call - long put spread [Proposed Reg. 100.9(f)(iii)];

2. Long call - short call - long put [Proposed Reg. 100.9(f)(iv)];

3. Short call - long warrant [Proposed Reg. 100.9(f)(v)];

4. Short call - long put - long underlying [Proposed Reg. 100.9(g)(v)];

5. Long call - short put - short underlying [Proposed Reg. 100.9(g)(vi)];

Index Derivative Offsets

1. Box Spread - [Proposed Reg. 100.9(h)(i)(A)];

2. Long Butterfly Spread [Proposed Reg. 100.9(h)(i)(B)];

3. Short Butterfly Spread [Proposed Reg. 100.9(h)(i)(C)];

4. Long qualifying index basket or long index participation units - long index put options - short index call options [Proposed Reg. 100.9(h)(iii)(E)];

5. Long qualifying index basket - long index participation unit put options - short index participation unit call options [Proposed Reg. 100.9(h)(iii)(E)];

6. Short qualifying index basket or short index participation units - long index call options - short index put options [Proposed Reg. 100.9(h)(iii)(F)];

7. Short qualifying index basket - long index participation unit call options - short index participation unit put options [Proposed Reg. 100.9(h)(iii)(F)];

8. Short index call - long index future [Proposed Reg. 100.9(h)(vi)(A)];

9. Short index put - short index future [Proposed Reg. 100.9(h)(vi)(B)];

10. Long index call - short index future [Proposed Reg. 100.9(h)(vi)(C)];

11. Long index put - long index future [Proposed Reg. 100.9(h)(vi)(D)];

12. Short index call - long index put - long index future [Proposed Reg. 100.9(h)(vi)(E)];

13. Long index call - short index put - short index future [Proposed Reg. 100.9(h)(vi)(F)];

13.1.4 IDA – Policy No. 4 Minimum Standards for Institutional Account Opening, Operation and Supervision

INVESTMENT DEALERS ASSOCIATION OF CANADA – POLICY NO. 4 MINIMUM STANDARDS FOR INSTITUTIONAL ACCOUNT OPENING, OPERATION AND SUPERVISION

I. OVERVIEW

A -- Current Rules

Policy No. 4 Minimum Standards for Institutional Account Opening, Operation and Supervision (the "Policy") was developed to fill a void in the guidance available to registered representatives and Members in dealing with customers other than retail customers. In 1993, Minimum Standards for Retail Account Supervision came into force in order to not only ensure that registered representatives comply with the rules of the relevant self-regulatory organizations, but that supervisory personnel have guidance in exercising their responsibilities for compliance with the relevant by-laws, regulations and policies. The Minimum Standards for Institutional Account Opening, Operation and Supervision were designed to do the same with respect to institutional accounts.

The Board of Directors first approved the Policy on June 18, 1996 and it was published for comment in the Ontario Securities Commission Bulletin on August 30, 1996 (the "1996 Policy"). No public comments were received, although the OSC did have some minor drafting comments at the time. In the interim, discount brokers began seeking an application for relief from general suitability obligations. It was determined that until the issue of suitability was resolved in the retail business, further development of the Policy should be delayed and then reconsidered in the context of changes to the suitability regime in Canada. Once those matters were resolved, the Compliance and Legal Section's Institutional Sub-Committee began to review and redraft the Policy.

B -- The Issue

Current IDA rules are not specific with respect to what constitutes adequate procedures for opening institutional accounts, suitability with respect to the accounts and establishing general procedures and supervision of these accounts. As a consequence, the Policy was developed several years ago and modified more recently.

C -- Objective

It has long been recognized in the procedures and organization of Members that clients fall into two major categories – retail and institutional. Firms have separate departments and structures to deal with retail and institutional clients. Some firms specialize in dealing with only one of these two major types of clients. The Minimum Standards for Retail Account Supervision recognizes this distinction. However, from a regulatory perspective in the sales practices rules, this categorization has been an informal one for institutional accounts.

Policies which establish procedures and provide guidance in the area of standards for the supervision of institutional accounts have been lacking. The Policy will address this issue.

D -- Effect of Proposed Policy

The Policy will ensure that Members apply institutional standards in a consistent and equitable manner.

II. DETAILED ANALYSIS

A -- Present Rules, Relevant History and Proposed Policy

The present rules set out the general requirements for know-your-client and suitability in Regulation 1300. By-law 29.27 generally requires firms to establish supervisory systems and written policies and procedures regarding the conduct for the types of business in which a Member engages. Additional guidance on know-your-client, suitability and general supervision requirements is found in Policy No. 2 Minimum Standards for Retail Account Supervision. These standards provide guidance on items such as:

1. establishing and maintaining procedures, delegation and education
2. opening new accounts
3. branch and head office account supervision

Further guidance is needed on the same matter for institutional accounts. Consequently, Policy No. 4 provides guidance on:

1. the definition of an institutional account
2. client suitability
3. opening new accounts
4. money-laundering considerations
5. establishing and maintaining procedures, delegation and education
6. account supervision

The Policy provides a definition of an institutional account and enumerates factors, which will be considered in determining whether the Member has a suitability obligation to an institutional client. In those circumstances, the client will be treated in the same manner as a retail client.

The suitability discussion has been streamlined from that contained in the 1996 Policy. The Institutional Sub-Committee determined that a more simplified discussion

and list of factors provided for more clarity in determining whether to treat the client as an institutional client.

The approach is flexible and will depend upon the nature of the firm, its procedures and its clients. The implementation of the Policy will require that each Member review its business activities and determine the manner in which the Policy is to be applied.

Another change from the 1996 Policy was the removal of Part V and Part VI dealing with Branch Office and Head Office Supervision, respectively. The Institutional Sub-Committee determined that these provisions were not necessary due to the introduction of the Universal Market Integrity Rules ("UMIR"). Specifically, Policy 7.1 of UMIR entitled "Policy on Trading Supervision Obligations" addresses the need for compliance monitoring and trade desk reviews and thus the supervision provisions in the Policy were deemed redundant.

The 1996 Policy also contained Part VII on Client Complaints. The Institutional Sub-Committee discussed the matter and concluded that based on the sophistication of institutional clients and the relatively narrow definition of "institutional client", the level of client complaints in the past was extremely low and therefore provisions for this matter were not required.

The definition of an institutional client was studied a great deal by the CLS Institutional Sub-Committee. The Sub-Committee reviewed current definitions in the IDA Rules, in addition to definitions of "accredited investor" under OSC Rule 45-501 Exempt Distributions and the definition of "retail client" under National Instrument 33-102 Regulation of Certain Registrant Activities.

An earlier draft of the definition section in the Policy also included individuals having a net worth exceeding $5 million. This definition is currently included in National Instrument 33-102. However, after considering a submission on this issue from the Bourse de Montreal, the Sub-Committee agreed to remove a definition that includes individuals. The Bourse argued that while the Policy requires a firm to determine if the client is sufficiently sophisticated and capable of making its own investment decisions in order to be considered as an institutional client, the individual category "seems to open the door to a second approach by allowing determination based on net worth when proper documentation substantiates that net worth." The Bourse stated that once the documentation establishes that an individual has a net worth of more than $5 million, there is a danger that the person will be automatically qualified as an institutional client.

The Bourse stated that in the US, the NASD defines an "institutional account" as a natural person with total assets of $50 million. However, with respect to suitability for institutional customers, the interpretation in the NASD Rules states that the guidance should be applied to an institutional customer with at least $10 million invested in securities.

The Bourse argued that the evaluation of an individual's net worth is a very subjective exercise as their figures cannot be audited appropriately and often the net worth declared by individuals is frequently over valued. Consequently, the Bourse stated that very limited relevance can be given to declared net worth of individuals. The Sub-Committee agreed and as a result, the definition pertaining to individuals having a net worth exceeding $5 million was removed from the definition of an institutional client.

B -- Issues and Alternatives Considered

There were no other alternatives considered, other than the consideration related to the definition of individual institutional clients as discussed above.

C -- Comparison with Similar Provisions

The suitability provisions in the Policy were based, in part, on NASD Interpretation IM-2310-3 entitled Suitability Obligations to Institutional Customers, which sets out various factors and considerations in determining a member's suitability obligations in making recommendations to an institutional customer. Under the NASD interpretation, once a member has reasonable grounds for concluding that the institutional customer is making independent investment decisions and is capable of independently evaluating investment risk (based on enumerated factors), then a member's obligation to determine that a recommendation is suitable for a particular customer is fulfilled.

Both the Policy and the NASD Rule recognize that these factors are guidelines only and a determination must be made on a case-by-case basis taking into consideration the factors and circumstances of a particular Member-client relationship.

In the United Kingdom, The Financial Services Authority has requirements for categorizing counterparties with which a firm deals. If a customer of a broker is one of a number of types of financial institutions or a government, then rules allow a member to categorize the customer as a market counterparty. There are additional categories for experts and non-private customers, which are individuals of certain sophistication.

D -- Systems Impact of Policy

It is not anticipated that the Policy will have a significant impact on Member's systems as most firms that have institutional clients already have systems in place to monitor and supervise these accounts.

E -- Best Interests of the Capital Markets

The Board has determined that the public interest Policy is not detrimental to the best interests of the capital markets.

F -- Public Interest Objective

The Policy addresses the need for completing the guidance available to Members in satisfying know-your-client and

suitability rules in the context of institutional accounts. In addition, the Policy provides guidance and procedures which will standardize industry practices and ensure increased client protection.

The proposal does not permit unfair discrimination among clients, issuers, brokers, dealers, Members or others. It does not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes.

III. COMMENTARY

A -- Filing in Other Jurisdictions

These proposed amendments will be filed for approval in Alberta, British Columbia, Saskatchewan and Ontario and will be filed for information in Nova Scotia.

B -- Effectiveness

The Policy is an effective means of providing guidance and consistent standards for Members who operate institutional accounts.

C -- Process

The Policy was developed by the Compliance and Legal Section's Institutional Sub-Committee and approved by the Compliance and Legal Section.

IV. SOURCES

References:

- IDA By-law 29.27
- IDA Regulation 1300
- IDA Policy No. 2 Minimum Standards for Retail Account Supervision
- IDA Form 1 Joint Regulatory Financial Questionnaire and Report, definition section
- OSC Rule 45-501 Exempt Distributions, definition of "accredited investor"
- National Instrument 33-102 Regulation of Certain Registrant Activities, definition of "retail client"
- Policy 7.1 of UMIR entitled "Policy on Trading Supervision Obligations
- NASD Interpretation IM-2310-3 Suitability Obligations to Institutional Customers
- NASD Rule 3310(c)4
- Financial Services Authority Handbook, Principles for Businesses, Chapter 1.2 Introduction: Clients and the Principles and Conduct of Business, Chapter 4.1 – Accepting Customers: Client Classification

V. OSC REQUIREMENT TO PUBLISH FOR COMMENT

The IDA is required to publish for comment the accompanying Policy so that the issue referred to above may be considered by OSC staff.

The Association has determined that the entry into force of the proposed Policy would be in the public interest. Comments are sought on the proposed Policy. Comments should be made in writing. One copy of each comment letter should be delivered within 30 days of the publication of this notice, addressed to the attention of Michelle Alexander, Investment Dealers Association of Canada, Suite 1600, 121 King Street West, Toronto, Ontario, M5H 3T9 and one copy addressed to the attention of the Manager of Market Regulation, Ontario Securities Commission, 20 Queen Street West, 19th Floor, Box 55, Toronto, Ontario, M5H 3S8.

Questions may be referred to:

Michelle Alexander
Senior Legal and Policy Counsel
Regulatory Policy
Investment Dealers Association of Canada
(416) 943-5885
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POLICY NO. 4

MINIMUM STANDARDS FOR INSITUTIONAL ACCOUNT OPENING, OPERATION AND SUPERVSION

I. INTRODUCTION

This Policy covers the opening, operation and supervision of institutional accounts, which are accounts for sophisticated investors. Because of the sophistication of such investors, application of IDA Policy No. 2, the Minimum Standards for Retail Account Supervision, is not warranted. Accordingly, it is not necessary for members to make a suitability determination when recommending or executing securities transactions to such investors.

This document sets out minimum standards governing the opening, operation and supervision of institutional accounts.

Pursuant to IDA By-laws 29.27 and 38, the Member must provide adequate resources and qualified supervisors to achieve compliance with these standards.

Adherence to the minimum standards requires that a Member have in place procedures to properly open and operate institutional accounts and monitor their activity. Following these minimum standards, however, does not:

a. relieve a Member from complying with specific SRO by-laws, rules, regulations and policies and securities or other legislation applicable to particular trades or accounts; (e.g.: best execution obligation, restrictions on short selling, order designations and identifiers, exposure of client orders, trade disclosures);

b. relieve a Member from the obligation to impose higher standards where circumstances clearly dictate the necessity to do so to ensure proper supervision; or

c. preclude a Member from establishing higher standards.

Any account which is not an institutional account governed by these standards will be governed by the Minimum Industry Standards for Retail Account Supervision (Policy No. 2).

II. ACCOUNT OPENING

1. Definition of an Institutional Client

For the purposes of this Policy, the following are defined as Institutional Clients:

a. Acceptable Counterparties (as defined in Form 1);

b. Acceptable Institutions (as defined in Form 1);

c. Regulated entities (as defined in Form 1);

d. Registrants (other than individual registrants) under securities legislation, or members of a Recognized Stock Exchange (as defined in IDA By-law 1); and

e. A non-natural person with total securities under administration or management, exceeding $10 million.

2. Opening an Institutional Account – Client Suitability

At the time of opening an account for an institutional client, the Member must make a determination whether the client is sufficiently sophisticated and capable of making its own investment decisions and therefore, an institutional account or a retail account. If the Member determines that the client should be treated as an Institutional Account, the Member must either obtain from the client a written acknowledgement that the client is not relying on a Member to determine or review the suitability of recommendations or trading, or otherwise put the client on notice. If not, the account should be treated as a retail account.

In making that determination, the member should take the following factors into consideration*:*

a. The knowledge and resources available to the client to make informed investment decisions, which may include:

i. the use of one or more investment dealers, portfolio managers, investment counsel or other third party advisors;

ii. the general level of experience of the client in financial markets; and

iii. the specific experience of the client with the type of instrument(s) under consideration, including the client's ability to independently evaluate how market developments would affect the security and ancillary risks such as currency rate risk.

These factors are guidelines. The presence or absence of any of these factors is not dispositive of the determination of suitability. Such a determination can only be made on a case-by-case basis taking into consideration the facts and circumstances of a particular member/client relationship, assessed in the context of particular types of transactions.

A client may operate as an institutional client in one type of investment in which it has independent decision-making expertise but as a retail client with respect to another product in which it does not. Any activity with respect to an institutional client done on a retail basis must be conducted in a separate retail account.

3. New Account Documentation and Approval

The following documentation is required for each institutional account opening:

a. New Client Account Application;

b. Documentation to substantiate net worth when net worth is used as a basis for determining eligibility; and

c. All documentation required under the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations.

The Member may establish a 'master' new account documentation file, containing full documentation and, when opening sub-accounts, it should refer to the principal or 'master' account with which it is associated.

Each new account must be approved by the Department Head or his/her designate, prior to the initial trade or promptly thereafter. Such approval must be documented in writing or auditable electronic form.

The Member must exercise due diligence to ensure that the new client account application is updated whenever the Member becomes aware that there is a material change in client information.

4. "Non-Cooperative" Country and Territory Accounts

Members should take the following measures when dealing with clients who are resident in "non-cooperative" countries and territories, as identified by the Financial Action Task Force.

a. Ensure adherence to the client and third party identification and verification requirements of the Regulations under Proceeds of Crime (Money Laundering) and Terrorist Financing Act; and

b. Ensure affected staff and operational personnel are made aware of the countries and territories, that have been identified as non-cooperative, and give special supervisory attention to transactions with clients domiciled therein.

III. ESTABLISHING AND MAINTAINING PROCEDURES, DELEGATION AND EDUCATION

1. Introduction

Effective self-regulation begins with the Member establishing a supervisory environment which fosters both the business objectives of the Member and maintains the self-regulatory process. To that end, a Member must establish procedures which are supervised by qualified individuals.

2. Establishing Procedures

Members must appoint a designated supervisor, who is a partner, director, or officer and has the necessary knowledge of industry regulations and Member firm policy to properly establish procedures reasonably designed to ensure adherence to regulatory requirements, and to supervise Institutional Accounts.

a. Written policies must be established to document and communicate supervisory requirements.

b. All supervisory alternates must be advised of, and adequately trained for their supervisory roles.

3. Maintaining Procedures

a. Evidence of supervisory reviews must be maintained for a minimum of five years.

b. A periodic review of supervisory policies and procedures should be carried out by the Member to ensure they continue to be effective, and reflect any material changes to the businesses involved.

4. Delegation of Procedures

a. Tasks and procedures may be delegated but not responsibility.

b. The supervisor delegating the task must take steps designed to ensure that these tasks are being performed adequately and that exceptions are brought to his/her attention.

5. Education

A major aspect of self-regulation is the ongoing education of staff. The Member is responsible for appropriate training of institutional sales and trading staff, as well as ensuring that Continuing Education requirements are being met.

6. Compliance Monitoring Procedures

Members must establish compliance procedures for monitoring and reporting adherence to rules, regulations,

requirements, policies and procedures. A compliance monitoring system should be reasonably designed to prevent and detect violations. The compliance monitoring system will ordinarily include a procedure for reporting results of its monitoring efforts to management, and where appropriate, the Board of Directors, or its equivalent.

IV. SUPERVISION OF ACCOUNTS

1. Members must implement policies and procedures for the supervision and review of activity in the accounts of institutional clients. Such procedures may include periodic reviews of account activity, exception reports or other means of analysis.

2. The policies and procedures may vary depending on factors including, but not limited to, the type of instrument, type of client, type of activity or level of activity.

3. The supervisory procedures, and the compliance monitoring procedures, should be reasonably designed to detect the following:

   a. Manipulative or deceptive methods of trading;

   b. Establishing artificial prices;

   c. Trading on the basis of material non-public information available to the Member through corporate finance, knowledge of pending trades or other sources of information;

   d. Trading in restricted list securities;

   e. Frontrunning;

   f. Sales from control blocks;

   g. Exceeding position or exercise limits on derivative products; and

   h. Transactions raising a suspicion of money laundering or terrorist financing activity.

4. The policies and procedures should outline the action to be taken to deal with problems or issues identified from supervisory reviews.

13.1.5 IDA – CFO Qualifying Examination

INVESTMENT DEALERS ASSOCIATION OF CANADA – CFO QUALIFYING EXAMINATION

I OVERVIEW

A -- Current Rules

The current By-laws of the Investment Dealers Association of Canada ("The Association") do not include in its definition of Officer, By-law 1.1, a category of Chief Financial Officer ("CFO"), and do not include a proficiency requirement for CFO's, Policy 6.

B -- The Issue

Corporate governance is an important element in the operation of any corporation. In respect to the securities industry, this includes having qualified management to run the business entity to ensure compliance with a myriad of securities regulations. In respect to financial regulations, it is the role and responsibility of the CFO to ensure that the firm is in compliance with such rules. This bylaw change codifies the requirement to designate and register a CFO for every member firm.

A secondary issue facing Association staff is that there is no objective standard to evaluate and approve the registration for CFO applications. The current Partner Director Officer Qualifying Examination ("PDO Exam"), which is a prerequisite for any officer position, is currently insufficient in terms of testing knowledge of financial compliance rules to the competency level expected of a CFO. To increase the extent of testing on the PDO Exam, for in depth knowledge of financial compliance rules, is not appropriate because of the content of the exam. The CFO Qualifying Examination ("CFO Exam") will be a separate test module, in addition to the PDO Exam that will focus specifically on testing of financial compliance rules for those individuals designated and registering as CFO.

The desired outcome of this bylaw change is to establish standards for the qualification of CFO and registration approval of such persons at member firms.

C -- Objective

The objective of this bylaw amendment is consistent with the overall strategic initiative by the Association to develop and implement risk assessment strategies designed to establish a minimum level of corporate governance amongst all member firms and decrease the risk profile of high-risk member firms.

The development of risk assessment strategies gives Member Regulation staff the capability to identify, prioritize, mitigate and contain high-risk situations. The risk-basis method works to identify trends in improper behavior; assess and task resources to matters of greatest risk; and enhance the timeliness of regulatory intervention.

The Association has experienced increased growth in its membership over the years. At the same time, the IDA has correlated an increasing number of Early Warning and Capital Deficiency occurrences with the inexperience and/or lack of knowledge of CFOs to effectively manage and monitor the capital of their firms pursuant to regulatory requirements. This is evidenced by an increasing number of disciplinary bulletins issued by the Association against CFOs and/or their firms for failure to meet minimum capital and/or book and record requirements.

This is a systemic problem that has affected the risk profile of a range of member firms and the implementation of the CFO Exam is in part, designed to address this along with other strategic Member Regulation initiatives.

The CFO Exam will establish a standard of professional competence for the CFO position. The PDO Exam will continue to be a requirement as for any officer position. In addition, applicants for CFO must also pass an additional exam designed to test their knowledge of financial compliance rules.

The Association has developed a syllabus (in English and French) from which the examination will be based for testing those individuals applying to be registered as CFO of a member firm. The examination will be administered by the Canadian Securities Institute in English and French and is separate from the PDO Exam.

D -- Effect of Proposed Rules

The CFO Exam is based on self-study material relating to financial compliance rules. An accompanying syllabus will also be provided that itemizes the study material by degree of required knowledge (introductory, intermediate and advanced) in respect to all aspects of financial compliance rules.

Existing CFO registrations

The effect of the proposed rule change will require existing CFO registrants to review and/or study the self-study material and syllabus and write the CFO Exam. It is intended that the self-study material will be of significant value to industry participants as it will be the only published reference source explaining the application of the Association's financial compliance rules.

CFO's who currently hold the title of CFO and are responsible for the regulatory financial compliance of their firm will be required to write and pass the examination within 18 months of the implementation date of the rule amendment. There will be 3 separate sets of examinations prepared for failed attempts. There is no set limit on the number of times to rewrite the exam just as there is no limit for the PDO examination.

New CFO applications

Any new applicants for approval as CFO after the implementation date of this new by-law will be required to pass the examination in order to be approved. The applicant must possess a financial accounting designation, university degree or diploma, or equivalent work experience.

Part time CFO's

The Association has a large number of small member firms and hiring a full time qualified CFO may in some cases be cost prohibitive. As an alternative, the Association has made rule amendments to permit part time CFO's to compensate for small or junior firms' inability to recruit and pay for full time qualified CFO's. The CFO Exam also applies to part time employment.

Acting CFO's

The Association will allow for a transition period between a CFO that leaves the employment of a member and his/her replacement. The transition period will be 90 days allowing conditional registration for a person to be appointed "acting" CFO. The condition is subject to the acting CFO completing the qualifying exam or the hire of a fully qualified replacement within this transition period.

Others

The examination will also be required to be re-written for those who are subject to disciplinary action by the Association for financial compliance matters.

Continuing Education

The Association is also considering the development of a continuing education program for CFO's. This will ensure that all designated CFOs remain current with financial regulatory changes. The vehicle for these continuing education credits may include CFO attendance at member firm seminars organized by the Association, participation in industry committees such as the FAS Capital Formula etc.

II -- DETAILED ANALYSIS

A -- Comparison with Similar Provisions

UNITED STATES

In the United States applicants for CFO are required by NASD Membership and Registration Rules 1022(b) and 1022(c), to write the Series 27 or 28 examination respectively -- the Series 27 to become CFO's of a full service firm or the Series 28 examination to become CFO of an introducing broker. The NASD's Financial and Operations Principal Qualification Examination is designed to test a candidate's knowledge of applicable rules and statutory provisions relating to broker / dealer financial responsibility and record keeping, the protection afforded investors under the *Securities Investor Protection Act of 1970*, the Federal Reserve Board's regulations governing extensions of credit on securities transactions and uniform practices in the securities industry.

OTHER RULES OF THE ASSOCIATION

IDA Policy 6, Part I sets out specific examination requirements for approval in several senior officer and supervisor capacities, including:

i) The Partners, Directors and Senior Officers Qualifying Examination;

ii) The Canadian Commodity Supervisors Examination for Futures Contracts Principals;

iii) The Options Supervisors Course for Registered Options Principals.

The Association views the responsibilities of CFOs as critical to the firm's compliance with financial requirements and believes that an examination to test competency of applicants for CFO is as important as for these other senior positions.

B -- Systems Impact of Rule

The change has no significant impact on the systems of the Association or its Members. The Chief Financial Officer category is already included in the categories for the National Registration Database (NRD), currently under development for the Canadian Securities Administrators and the Association. The examination will have to be added to a table in due course. In the interim, the requirement for applicants to complete the examination can be administered manually with little difficulty.

C -- Best Interests of the Capital Markets

The Association believes that it is in the best interests of the capital markets to ensure that those responsible for ensuring Member compliance with financial requirements designed to protect the public are fully qualified to do so. The desired outcome is to establish a minimum level of corporate governance by establishing a qualification standard for financial compliance management at member firms.

D -- Public Interest Objective

According to subparagraph 14(c) of the IDA's Order of Recognition as a self-regulatory organization, the IDA shall, where requested, provide in respect of a proposed rule change "a concise statement of its nature, purposes (having regard to paragraph 13 above) and effects, including possible effects on market structure and competition." The purpose of the CFO Exam is to standardize industry practices where necessary or desirable for investor protection in accordance with the IDA recognition order of June 1995. As mentioned above, there are other examinations that the Association requires in its educational requirements for registered individuals in the securities business. Statements have been made elsewhere as to the nature and effect of the proposal to require a written examination for registered individuals.

The proposal does not permit unfair discrimination among customers, issuers, brokers, dealers, Members or others. It does not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes.

III -- COMMENTARY

A -- Filing in Other Jurisdictions

These proposed amendments will be filed for approval in Alberta, British Columbia, Saskatchewan and Ontario and will be filed for information in Nova Scotia.

B – Effectiveness

It is believed that the proposed amendments will be effective in screening CFO applicants for competency and reduce the number of early warnings and capital deficiencies resulting from lack of regulatory knowledge and misapplication of the financial compliance rules.

C -- Process

A consultative process was undertaken by the IDA to outline the objective and purpose of requiring CFO's to write a qualifying examination. The industry groups consulted were as follows:

- CLS Education and Proficiency Sub-Committee
- All IDA District Councils
- Financial Administrators Section ("FAS")
- FAS Executive Committee and FAS Capital Formula Subcommittee
- CIPF Minimum Standards Committee
- Canadian Securities Administrators

The CLS Education and Proficiency Sub-Committee ("Sub-Committee") has endorsed the proposal of a CFO Qualifying examination and the registration category of a Chief Financial Officer. The Sub-committee has recommended the above changes to the IDA Board for approval.

IV -- SOURCES

References:

- Series 27 and 28 exams
- NASD Membership and Registration Rules 1022(b) and 1022(c)
- IDA By-law 1
- IDA Policy 6, Part I.
- IDA Policy 7

V -- OSC REQUIREMENT TO PUBLISH FOR COMMENT

The IDA is required to publish for comment the accompanying amendments so that the issue referred to above may be considered by OSC staff.

The Association has determined that the entry into force of the proposed amendments would be in the public interest. Comments are sought on the proposed amendments. Comments should be made in writing. One copy of each comment letter should be delivered within 30 days of the publication of this notice, addressed to the attention of Louis Piergeti, Investment Dealers Association of Canada, Suite 1600, 121 King Street West, Toronto, Ontario, M5H 3T9 and one copy addressed to the attention of the Manager of Market Regulation, Ontario Securities Commission, 20 Queen Street West, 19th Floor, Box 55, Toronto, Ontario, M5H 3S8.

Questions may be referred to:
Louis Piergeti, Vice-President,
Member Regulation
Investment Dealers Association of Canada
(416) 865-3028
lpiergeti@ida.ca

INVESTMENT DEALERS ASSOCIATION OF CANADA

BY-LAWS 1, 7, POLICY 6 PARTS I AND II

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada ("the Association") hereby amends the By-laws, Regulations and Policies of the Associations, as follows:

By-law 1 – Definitions

The definition of "Officer" in by-law 1.1 is amended by removing "assistant secretary" from the title of Officer and replacing treasurer, assistant treasurer, comptroller and general manager, with the modern titles, chief executive officer, chief financial officer and chief operating officer, as follows:

> **"Officer"** means the chair~~man or~~ and ~~any~~ vice-chair~~man~~ of the board of directors, ~~the~~ president, ~~any~~ vice-president, chief executive officer, chief financial officer, chief operating officer, ~~the~~ secretary, ~~the assistant secretary, the treasurer, the assistant treasurer, the comptroller or the general manager of a Member, or~~ any other person designated an officer of a Member by by-law or similar authority, or any person acting in a similar capacity on behalf of a member;

By-Law 7 - Partners, Directors and Officers

By-law 7.1(4) is amended by the addition of subparagraphs (b) and (c), requiring the appointment of Chief Financial Officer and, upon his/her termination, the immediate appointing of acting chief financial officer, as follows:

(4) (a) All of the officers of the Member shall have the qualifications described in paragraphs (1)(a), (b) and (d) and not less than 60% of the officers shall also have the qualification described in paragraph (1) (c).

(b) At least one officer shall be appointed chief financial officer who, in addition to the requirements under 7.1 (4) (a), shall have the qualification required pursuant to Policy 6, Part IA, section 2A. The chief financial officer need not be engaged full time in the business of the Member.

(c) Notwithstanding 7.1 (4) (b), if the chief financial officer of a Member terminates his or her employment with the Member and the Member is unable to immediately appoint another qualified person as chief financial officer, the Member may, with the Association's approval, appoint an officer as acting chief financial officer provided that, within 90 days of the

termination of employment of the previous chief financial officer,

(i) the acting chief financial officer successfully completes the requirements of Policy 6, Part 1A, section 2A and is approved by the Association as chief financial officer; or

(ii) another qualified person is appointed chief financial officer by the Member and approved by the Association.

Policy 6 Part 1 – Proficiency Requirements

Paragraph A of this Policy 6 Part 1 is amended by the addition of section 2A, which sets out the proficiency requirements for chief financial officers, as follows:

A. PROFICIENCY REQUIREMENTS FOR REGISTERED PERSONS

2A. Chief Financial Officers

The proficiency requirements for a Chief Financial Officer pursuant to by-law 7.1 (4) are:

(a) A financial accounting designation, university degree or diploma, or equivalent work experience; and

(b) The Partners, Directors and Senior Officers Qualifying Examination, and within eighteen months of the coming into force of by-law 7.1 (4) (b) and (c), and this section 2A of Policy 6 Part IA, successful completion of the Chief Financial Officers Examination.

Policy 6 Part II – Proficiency And Education

Paragraph A of this Policy is amended by the addition of section 3A, setting out the criteria for granting an exemption from rewriting the chief financial officers examination, as follows:

A. Exemptions from Rewriting

3A. Chief Financial Officers Examination

An applicant shall be exempt from rewriting the Chief Financial Officers Examination if the applicant:

(a) is currently approved in any category other than chief financial Officer and, since completing the chief financial officers examination, has been working closely with and providing assistance to the chief financial officer;

(b) was approved as chief financial officer with a member and is currently seeking re-approval as such within three years of the end of the last approval date;

(c) is currently seeking approval as chief financial officer within two years of successfully completing the chief financial officers examination.

PASSED AND ENACTED BY THE BOARD OF DIRECTORS, this 15th day of April 2003, to be effective on a date to be determined by Association staff.

13.1.6 IDA – Proposed Policy No. 11 Analyst Standards

INVESTMENT DEALERS ASSOCIATION OF CANADA – PROPOSED POLICY NO. 11 ANALYST STANDARDS

I. OVERVIEW

A -- Current Rules

Currently, there are no comprehensive by-laws, regulations or policies that specifically address research analyst conflicts of interest. There are provisions in securities legislation or regulations in some provinces regarding disclosures of conflicts of interest, and conduct and supervision requirements under IDA By-law 29.7.

As serious conflicts of interest can arise, uniform rules need to be established to assist individuals who rely on analyst recommendations and to help inspire investor confidence.

The Association submitted proposed Policy No. 11 for approval to the CSA in June 2002. The provisions were based largely on the report of the *Securities Industry Committee on Analyst Standards* published in October, 2001.

Policy No. 11 has been revised based on comments received from Member firms and the CSA as well as recent changes to the regulations of self-regulatory organizations in the United States designed to address the same issues.

B -- The Issue

Policy No. 11 addresses conflicts that may affect research reports by virtue of investment banking or other relationships between the Member and the issuer.

There have been extensive amendments to securities regulations in the United States within the past year. Furthermore, the Association has received numerous comments from the industry and the CSA on Policy No. 11 as passed by the Association in June, 2002.

As a result of these interim events, Policy No. 11 has been revised to improve its efficacy, although the basic policy and most of the rules remain intact.

C -- Objective

The proposed Policy is designed to improve investor confidence in the marketplace by setting higher standards of practice among analysts. In order to achieve these standards disclosure and supervisory requirements are necessary.

D -- Effect of Proposed Rules

It is the position of the Association that the proposed Policy will have a positive impact on the current market structure. One main objective of the proposed Policy is to improve investor confidence by setting higher standards among analysts and reducing conflicts of interest. Generally, markets that inspire investor confidence tend to attract higher trading volumes, which leads to greater liquidity.

II. DETAILED ANALYSIS

A -- Present Rules, Relevant History and Proposed Policy

Based on comments received from Member firms, the CSA and recent events in the United States, proposed Policy No. 11 has been amended.

In order to have the required effect, the introduction to the proposed Policy has been revised to require and to clarify that all disclosure be clear, comprehensive and prominent and furthermore, that boilerplate disclosure will not be acceptable.

The definitions of associated party, pro group, and pro group holdings have been removed from proposed Policy No. 11 and are now located in By-law 1. All three are integral to the Association's proposed Conflicts of Interest and Client Priority By-laws. The Association worked closely with the CSA to establish appropriate definitions. In order to make these concepts workable and useable and to retain consistent language throughout the Association's Rulebook, it was determined that the same meanings should apply to these terms under Policy No. 11. Please refer to the material with respect to Conflicts of Interest published in the Ontario Securities Commission Bulletin, dated November 8, 2002, for an in-depth discussion of these definitions. These concepts are subject to amendment under proposed Policy No. 11 in the event that the definitions are amended under the Conflicts of Interest By-law.

Changes to the Standards

The following amendments have been made to the standards under Policy No. 11 since the last publication in the Ontario Securities Commission Bulletin on July 5, 2002, in order to increase the level of disclosure required when issuing research to the public.

Standard 1 has been amended to clearly state that all conflict of interest policies and procedures must be submitted to the Association in writing.

The requirement for disclosure to be prominent has been moved to the introductory section of Standard 2 as well as to the introduction to the Policy. The introduction has also been amended to specify that boilerplate disclosure is not acceptable.

The introduction paragraph of Standard 2 is the general disclosure provision that provides "a Member must disclose any information which might reasonably be expected to indicate a potential conflict of interest on the part of the Member or the analyst making a recommendation with regards to the issuer." The standard as drafted is broad and encompasses various kinds of conflicts. For instance,

the provision would require the disclosure of lending relationships where there is a debtor and creditor relationship between an issuer and an affiliate of a Member, where there is a failure to pay on the indebtedness which is material to the Member. Other instances of required disclosure could include solicitation of business where a concerted effort is being made and where conflicts could potentially arise.

The remainder of Standard 2 outlines specific types of conflicts that must be disclosed. Standard 2(a)(ii) requires that the analyst responsible for a research report disclose if they hold or are short any of the issuer's securities. Standard 5 prohibits the Member from issuing a report prepared by an analyst if the analyst serves as an officer, director or employee of the issuer or serves in any advisory capacity to the issuer. Both of the above standards have now been extended to include not only the analyst, but associates of the analyst.

In order to be consistent with the time frame for certain disclosures under NASD Rule 2711 the Association has amended the time frame for disclosure of prior investment banking relationships under standard 2(a)(iii) and (iv) from 24 months to 12 months. Moreover subsection (iii) no longer applies to the Member.

Standard 2(a)(v) extends the disclosure requirement to include the name of any partner, director, officer, employee or agent of the Member who is an officer, director or employee of the issuer or who serves in any advisory capacity to the issuer.

Standard 2(a)(vi) has been added to include disclosure if the Member is making a market in the security of the subject issuer.

When dealing with independent third party research to clients under the third party name, Members must disclose any information regarding its business with, or relationship to, any issuer that is the subject of the report that might indicate a potential conflict of interest on the part of the Member or the analyst. An exception exists where the research is issued by a Member of the NASD or another regulator that is approved by the Association. However, where the exception exists, the report must disclose that it is not prepared subject to Policy No. 11. The definition of analyst has also been amended by removing the exclusion that third party individuals or firms cannot be considered analysts under the Policy.

Standard 8 has been revised to include a time frame in which an analyst or anyone involved in the preparation of the report can effect a trade in which the analyst has an outstanding recommendation for a period of 30 calendar days before and 5 calendar days after publication of the report unless written approval is received. This revision brings the standard in line with NASD Rule 2711.

Standard 11 has been redrafted and now provides for the minimum requirements that need to be included in the policies and procedures with respect to ensuring that recommendations in research reports are not influenced. The revisions were included to help reduce the likelihood of influence over research reports by the investment-banking department or the issuer.

Standards 14 and 15 have both been added to proposed Policy No. 11 and are based on NASD Rule 2711. Standard 14 requires the imposition of quiet periods by prohibiting the publication of a research report regarding an issuer for which the Member acted as a manager or co-manager of an initial public offering, for 40 calendar days following the date of the offering or 10 calendar days for a secondary offering. This standard was included in order to reduce a Member's ability to improperly reward the issuer for its underwriting business by publishing favourable research after the completion of the offering. However, this standard will not prevent a Member from commenting on the effects of significant news or events within such forty and ten day periods. Standard 15 has also been added to the proposal and provides Members with some latitude when distributing a research report that covers six or more issuers. In such a situation, Members can indicate in the report where disclosure under Policy No. 11 may be found.

Standard 19 now requires all Member's to pre-approve analysts' outside business activities in a further effort to reduce any potential conflicts that could arise. Standard 20 has also been added and requires that where price targets are set, Members must disclose the valuation methods used in order to give some meaning to the price targets.

Guidelines Becoming Standards

Proposed Policy No. 11 is drafted using standards and guidelines. Guidelines are inherently less strict than standards because they are less likely to be suitable for universal application. It is the position of the Association that Members must comply with guidelines where practicable. If a Member cannot comply with a guideline, they must be able to provide an explanation acceptable to the Association as to why it is impossible to comply with the guideline.

The revisions to the proposed Policy move a number of guidelines from the original draft into the standards section. This change is the result of further consultation with the Commissions, Member firms and the Committee, and as such, the Association has decided that all Members should be able to comply. Previous guidelines 3, 4, 6, 12 and 14 are now included as standards 13, 2(b), 3, 17 and 18 respectively. Standard 13 requires disclosure of the extent to which the analysts viewed the material operations of an issuer and if there has been a reimbursement for travel expenses. Standard 2(b) requires quarterly disclosure of the percentage of recommendations. Standard 3 states that where a brief public comment is made about an issuer, the existence of any report containing required disclosure must be referred to or that such a report does not exist. Standard 17 requires Members to obtain an annual certification from the head of research and CEO which states that their analysts have complied with the AIMR code of ethics. Standard 18 is a prohibition that an analyst who serves as an officer or director of an issuer should not provide research on the issuer. Part of guideline 5 with

respect to suspending or discontinuing coverage of an issuer has also been moved and is now standard 16. However, the guideline 16 now also states that no publication is required when the sole reason for the suspension is that an issuer has been placed on a Member's restricted list. Guideline 12, which is now standard 17, has also been amended and now states that analysts must comply with the AIMR Code of Ethics as opposed to having the option of complying with the Canadian equivalent, as no Canadian equivalent exists.

Changes to Guidelines

As mentioned above, the Association has included guidelines that require Members to comply where practicable.

Under the revised Policy, Members are required to use specific securities terminology mandated by securities legislation. Guideline 8 now states that where no such terminology is mandated, Members must use specific technical terminology required by the industry.

Guideline 10 has been redrafted to clarify that Members should appoint a supervisory analyst or head of research to be responsible for reviewing and approving reports as required under proposed IDA By-law 29.7. The guideline goes on to say that the supervisory analyst or head of research should be a partner, director, or officer of the Member and should have obtained the Chartered Financial Analyst ("CFA") designation or other appropriate qualification. Furthermore, it is the position of the Association that Members should require their analyst employees and those responsible for reviewing research to obtain the CFA designation or other appropriate qualifications.

The Association is of the view that a single proficiency standard is not appropriate. Degrees or other accreditation in business, finance or accounting may be equivalent or in fact better than the CFA. Furthermore, it will be up to the individual Member firm to make this determination given their greater expertise in the requirements and technicalities of conducting and supervising research.

B -- Issues and Alternatives Considered

The amendments were discussed with Member firms, the CSA and the Steering Committee to determine the appropriate disclosures required for the Canadian capital markets.

C -- Comparison with Similar Provisions

The NASD has worked closely with the New York Stock Exchange (“the NYSE”) and Securities and Exchange Commission ("SEC") to develop rules in the United States in order to address conflicts of interest that can arise when research analysts make recommendations in research reports and in public appearances.

The Association has compared each provision of NASD Rule 2711 and decided whether or not to include various provisions of the Rule. The decision took into account whether the provision addressed any perceived problem in the Canadian Market, whether it was practicable for most Canadian dealers, including smaller dealers, and whether the Association believed it to be in the public interest. NASD Rule 2711, was initially passed by the SEC in May, 2002. Since that time implementation of some of the rules have been delayed as the NASD has realized that not all firms are alike, and as such the rule as drafted may not apply equally to all firms.

One difference that exists between the two rules is that Policy No. 11 does not include NASD Rule 2711 (2)(A)(ii)(c) which requires disclosure if the Member expects to receive or intends to seek compensation for investment banking services from the issuer in the next three months. It is the position of the Association that including such a prescriptive requirement provides inappropriate disclosure of confidential information by forcing Members to breach information barriers between research and investment banking regarding proposed transactions.

Other differences include proposed Policy No. 11 requiring disclosure if any class of the issuer’s securities, whether long or short, in the aggregate exceed 5% of the outstanding securities of that class, as at a specified date or the latest month end are held by the Pro Group of the Member, whereas the NASD Rule requires disclosure if, as of five business days before publication of the report, the Member or affiliate beneficially owns 1% or more of any class of common equity securities of the subject company. It is the position of the Association that a 1% threshold is not material as it would include too large of a group and therefore such data would not provide useful analysis.

NASD Rule 2711 requires disclosure in research reports if the research analyst or a member of the research analyst’s household serves as an officer, director or advisory board member of the subject company. Proposed Policy No. 11 prohibits a Member from issuing a research report prepared by an analyst employed by the Member if the analyst or any associate of the analyst serves as an officer, director or employee of the issuer or serves in any advisory capacity to the issuer. It is the position of the Association that the risks of conflict are too high and therefore, prohibition rather than disclosure is required.

NASD Rule 2711 contains restrictions on the relationship between the investment-banking department of a member and the research department. The Rule states that no analyst may be subject to the supervision and control of any employee of the member’s investment banking department. The NASD Rule focuses on investment personnel reviewing reports before publication. Review of reports may only be done to verify factual accuracy of information or to review the report for any potential conflicts of interest. Rule 2711 also prohibits submitting the report to the subject company for review prior to publication subject to certain exceptions. Proposed Policy No. 11 requires Member firms to determine their own policies and procedures to minimize these types of conflicts. The proposed Policy states that the policies and procedures

must ensure that recommendations in research reports are not influenced by the investment banking department or the issuer. Standard 11 specifies the minimum requirements of what is required to be included in the policies and procedures in order to avoid this type of influence. It is the position of the Association that Member firms are in a better position to determine what checks are required to prevent influence between investment banking and research. Allowing Members to tailor their polices and procedures based on their specific business is appropriate in the Canadian market.

Rule 2711 prohibits analysts from investing in shares of any security before the issuer's initial public offering if the issuer is principally engaged in the same type of business as companies the analyst follows. After the IPO certain time periods exist before trading in such securities are permitted. Proposed Policy No. 11 now includes such restrictions in standard 8. Furthermore, proposed Policy No. 11 requires disclosure of the Pro Group's interest when selling such security as well as disclosure of the analyst's holdings in such an issuer.

NASD proposed Rule 1050 may require all persons who function as research analysts to be registered with NASD and pass a qualification examination. The Association does not believe that a category of registration for analysts is warranted at this time and as such we have not included this proposal. As noted above, the Association believes that there are various paths to qualification to act as a research analyst and that Members are in the best position to judge the qualifications of prospective analysts. NASD proposed Rule 1120 prescribes requirements regarding continuing education of certain registered persons subsequent to their initial qualification and registration with the Association.

Policy No. 11 contains a number of disclosure requirements not provided for in Rule 2711. For instance, proposed Policy No. 11 requires disclosure of whether the Member, any partner, director, or officer of the Member or any analyst involved in the preparation of a report on the issuer received remuneration or other benefit from the issuer for services. Policy No. 11 requires disclosure of the names of any partner, director, officer, employee or agent of the Member who is an officer, director or employee of the issuer, or who serves in any advisory capacity to the issuer. Policy No. 11 also includes disclosure of the Member's policies and procedures regarding dissemination of research and certain disclosures if third party research is used. As mentioned above, Policy No. 11 also establishes proficiency guidelines aimed at improving the quality of research provided. No such equivalent standard is found in Rule 2711.

The definition of research reports is also broader under Policy No. 11. The definition under Policy No. 11 includes both equity and fixed income research, whereas the definition under NASD Rule 2711 only includes equities.

With respect to supervisory procedures, Rule 2711 requires Members to adopt and implement written supervisory procedures designed to ensure that the member and its employees comply. The Rule also requires that a senior officer attest annually that is has adopted and implemented the procedures. Proposed Policy No. 11 requires Member's to develop and enforce conflict of interest polices and procedures. Members are required to have the policies and procedures approved and filed with the Association.

D -- Systems Impact of Rule

Any systems issues associated with the proposed Policy are currently being addressed in the Association's proposed By-law on Conflicts of Interest and Client Priority.

E -- Best Interests of the Capital Markets

The Association is of the view that the proposed Policy will strengthen market integrity, which in turn leads to investor confidence and as such is in the best interest of the capital markets.

F -- Public Interest Objective

The Association believes that the proposed Policy is in the public interest in that it will facilitate an efficient, fair and competitive secondary market. This will be accomplished by increasing investor confidence.

III. COMMENTARY

A -- Filing in Other Jurisdictions

These proposed amendments will be filed for approval in Alberta, British Columbia, Saskatchewan and Ontario and will be filed for information in Nova Scotia.

B -- Effectiveness

The Association believes that as drafted the proposed Policy adopts the most practical and effective solutions to addressing the potential for conflicts of interest that may arise in the context of preparing research reports.

C -- Process

The proposed Policy has been amended based on comments received from both the CSA and Member firms. The Analyst Standards Steering Committee has approved the revised Policy.

IV. SOURCES

CSA/Member comments.

IDA proposed By-law 29.30 Conflicts of Interest.

Setting Analyst Standards: Recommendations for the Supervision and Practice of Canadian Securities Industry Analysts (Crawford Report).

National Association of Securities Dealers Proposed Rule Regarding Research Analyst Conflicts of Interest (Rule 2711).

The Code of Ethics and Standards of Professional Conduct of the Association for Investment Management and Research (AIMR).

V. OSC REQUIREMENT TO PUBLISH FOR COMMENT

The IDA is required to publish for comment the accompanying Policy.

The Association has determined that the entry into force of the proposed Policy would be in the public interest. Comments are sought on the proposed Policy. Comments should be made in writing. One copy of each comment letter should be delivered within 30 days of the publication of this notice, addressed to the attention of Deborah L. Wise, Investment Dealers Association of Canada, Suite 1600, 121 King Street West, Toronto, Ontario, M5H 3T9 and one copy addressed to the attention of the Manager of Market Regulation, Ontario Securities Commission, 20 Queen Street West, 19th Floor, Box 55, Toronto, Ontario, M5H 3S8.

Questions may be referred to:
Deborah L. Wise
Legal and Policy Counsel
Regulatory Policy
Investment Dealers Association of Canada
(416) 943-6994
dwise@ida.ca

INVESTMENT DEALERS ASSOCIATION OF CANADA

ANALYST STANDARDS

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. By adding new Policy No. 11 as follows:

Policy No. 11

Analyst Disclosure Requirements

Introduction

This Policy establishes standards that analysts must follow when publishing research reports or making recommendations. These standards represent the minimum requirements necessary to ensure that Members have in place procedures to minimize potential conflicts of interest. The Disclosure required under Policy No. 11 must be clear, comprehensive and prominent. Boilerplate disclosure is not sufficient.

These standards are based on the recommendations of the Securities Industry Committee on Analyst Standards with input from both industry and non-industry groups.

Definitions

“advisory capacity” means providing advice to an issuer in return for remuneration, other than advice with respect to trading and related services.

“analyst” means any partner, director, officer, employee or agent of a Member who is held out to the public as an analyst or whose responsibilities to the Member include the preparation of any written report for distribution to clients or prospective clients of the Member which includes a recommendation with respect to a security. ~~For greater clarity, “analyst” does not include a third party individual or firm from which the Member purchases or otherwise acquires reports issued in the name of the third party for distribution to the Member’s clients.~~

~~"associated party" means, if used to indicate a relationship with a person or company~~

~~(a) a trust or estate in which~~

~~(i) that person or company has a substantial beneficial interest, unless that trust or estate is managed under discretionary authority by a person or company that is not a member of any pro group of which the first mentioned person or company is a member, or~~

~~(ii) that person or company serves as trustee or in a similar capacity;~~

(b) an issuer in respect of which that person or company beneficially owns or controls, directly or indirectly, voting securities carrying more than 10 percent of the voting rights attached to all outstanding voting securities of the issuer; or

(c) a relative, including the spouse, of that person, or a relative of that person's spouse, if

(i) the relative has the same home as that person, and

(ii) the person has discretionary authority over the securities held by the relative.

“investment banking service” includes, without limitation, acting as an underwriter in an offering for the issuer; acting as a financial adviser in a merger or acquisition; providing venture capital, lines of credit, or serving as a placement agent for the issuer.

“pro group” means a group comprised of a Member and all of the following persons or companies:

(a) any employee or agent of the Member;

(b) any partner, officer or director of the Member;

(c) any affiliate of the Member; and

(d) any associated party of any person or company described in paragraphs (a) through (c).

"pro group holdings" means the aggregate of all shares of each class of voting or equity securities, listed or quoted on a Canadian exchange or over-the-counter market, in which the pro group holds a beneficial ownership interest, including all shares which the pro group has a right to acquire, whether conditional or not, but does not include securities owned by the pro group in the course of a distribution under an underwritten offering.

A Member may exclude from the Member's pro group reporting requirements:

(a) the holdings of an affiliate or associated party of the Member, provided that

(i) the affiliate or associated party engages in a distinct business or investment activity separately from the business and investment activities of the Member,

(ii) the affiliate or associated party has a separate corporate and reporting structure,

(iii) there are adequate controls on information flowing between the Member and the affiliate or associated party, and

(iv) the Member maintains a list of such exempted affiliates and/or associated parties; or

(b) the holdings of individuals outside the Member that are (in the aggregate) both less than 10,000 shares and of a market value of less than $25,000.

However, the Association may, for the purposes of a particular calculation, include the holdings of a person that would otherwise be excluded from the Member's pro group holdings or exclude the holdings of a person that would otherwise be included in the Member's pro group holdings.

"research report" means any written or electronic communication that the Member has distributed or will distribute to its clients or the general public, which contains an analyst's recommendation concerning the purchase, sale or holding of a security (but shall exclude all government debt and government guaranteed debt).

“remuneration” means any good, service or other benefit, monetary or otherwise, that could be provided to or received by an analyst.

“supervisory analyst” means an officer of the Member designated as being responsible for research.

Standards

1. Each Member shall have written conflict of interest policies and procedures, in order to minimize conflicts faced by analysts. All such policies must be approved by and filed with the Association.

2. Each Member shall prominently disclose in any research report:

(a) any information regarding its business with or its or its agents’ relationships to any issuer which is the subject of the report which might reasonably be expected to indicate a potential conflict of interest on the part of the Member or the analyst in making a recommendation with regard to the issuer. Such information includes, but is not limited to:

(i) the pro group holdings, whether long or short, as at the date of the report or the latest month end (which ever the Member finds more practical), where the holdings exceed 5% of the outstanding securities of any class of the issuer’s securities,

(ii) whether the analyst or any associate of the analyst responsible for the report or recommendation or any individuals directly involved in

the preparation of the report hold or are short any of the issuer's securities directly or through derivatives,

(iii) whether ~~the Member~~, any partner, director or officer of a Member or any analyst involved in the preparation of a report on the issuer has, during the preceding ~~24~~ 12 months provided services to the issuer for remuneration,

(iv) whether the Member firm has provided investment banking services for the issuer during the ~~24~~ 12 months preceding the date of publication of the research report or recommendation, and

(v) the name of any partner, director, officer, ~~director or~~ employee or agent of the Member who is an officer, director or employee of the issuer, or who serves in any advisory capacity to the issuer;

(vi) whether the Member is making a market in the security of the subject issuer.

(b) the Member's system for rating investment opportunities and how each recommendation fits within the system~~; and~~ and shall disclose on their websites or otherwise, quarterly, the percentage of their recommendations that fall into each category of their recommended terminology; and

(c) its policies and procedures regarding the dissemination of research.

A Member may comply with subsections (b) and (c) by disclosing such information in the report or by disclosing in the report where such information can be obtained. ~~Furthermore, all of the above information must be disclosed prominently, whether the report is printed or disseminated electronically.~~

3. Where a ~~brief~~ public comment (which shall include an interview) is made about an issuer, a reference must be made to the existence of any relevant research report ~~of the full report~~ containing ~~where the above~~ the disclosure as required above ~~has been made~~, if one exists, or it must be disclosed that such a report does not exist.

4. Where a Member distributes a research report prepared by an independent third party to its clients under the third party name, the Member must disclose any items which would be required to be disclosed under section 2 of Policy No. 11 had the report been issued in the Member's name. This Section does not apply to research reports issued by Members of the National Association of Securities Dealers ~~Regulation~~ ("NASD~~R~~") or other regulators approved by the Association. However, where this Section does not apply, Members should disclose that the research report is not prepared subject to disclosures required under Policy No. 11.

5. No Member shall issue a research report prepared by an analyst if the analyst analyst or any associate of the analyst serves as an officer, director or employee of the issuer or serves in any advisory capacity to the issuer.

6. Any Member that distributes research reports to clients or prospective clients in its own name must disclose its research dissemination policies and procedures on its website or by other means.

7. Each Member who distributes research reports to clients or prospective clients shall have policies and procedures reasonably designed to prohibit ~~prevent and detect~~ any trading by its partners, directors, officers, employees or agents resulting in an increase, a decrease, or liquidation of a position in a listed security, or a derivative instrument ~~security~~ based principally on a listed or quoted security, with knowledge of or in anticipation of the distribution of a research report, a new recommendation or a change in a recommendation relating to a security that could reasonably be expected to have an effect on the price of the security.

8. ~~Members must ensure that n~~No analyst or any individual involved in the preparation of the report can effect~~s~~ a trade in a security of an issuer, or a derivative security whose value depends principally on the value of a security of an issuer, regarding which the analyst has an outstanding recommendation, for a period of 30 calendar days before and 5 calendar days after publication of the research report, unless they receive ~~without~~ the previous written approval of a designated partner, officer or director of the Member. No approval may ~~should~~ be given to allow an analyst or any individual involved in the preparation of the report to make a trade that is contrary to the analyst's current recommendation, unless special circumstances exist.

9. Members must disclose in research reports if in the previous 12 ~~twelve~~ months the analyst responsible for preparing the report received compensation based upon the Member's investment banking revenues.

10. No Member may pay any bonus, salary or other form of compensation to an analyst that is directly based upon one or more specific investment banking services transactions.

11. Each Member shall have policies and procedures in place to ensure that recommendations in research reports are not influenced by the investment banking department or the issuer. Such policies and procedures shall, at minimum: ~~Correction of factual errors is not such influence.~~

    (1) prohibit any requirement for approval of research reports by the investment banking department;

    (2) limit comments from the investment banking department on research reports to correction of factual errors;

    (3) prevent the investment banking department from receiving advance notice of ratings or rating changes on covered companies;

    (4) establish systems to control and keep records of the flow of information between research analysts and investment banking departments regarding issuers that are the subject of current or prospective research reports.

12. No Member may directly or indirectly offer favorable research, a specific rating or a specific price target, a delay in changing a rating or price target or threaten to change research, a rating or a price target ~~to~~of an issuer ~~company~~ as consideration or inducement for the receipt of business or compensation from an issuer.~~.~~

13. Members must disclose in research reports if and to what extent an analyst has viewed the material operations of an issuer. Members must also disclose where there has been a payment or reimbursement by the issuer of the analyst's travel expenses for such visit.

14. No Member may publish a research report regarding an issuer for which the Member acted as Manager or co-manager of

    (1) an initial public offering, for 40 calendar days following the date of the offering; or

    (2) a secondary offering, for 10 calendar days following the date of the offering;

but Section 14(1) and (2) do not prevent a Member from publishing a research report concerning the effects of significant news about or a significant event affecting the issuer within the applicable 40 and 10 day period.

15. When a Member distributes a research report covering six or more issuers, such a report may indicate where the disclosures required under Policy No. 11 may be found.

16. Members should publish notice of their intention to suspend or discontinue coverage of an issuer. However, no publication is required when the sole reason for the suspension is that an issuer has been placed on a Member's restricted list.

17. Members must obtain an annual certification from the head of the research department and chief executive officer which states that their analysts are familiar with and have complied with the AIMR Code of Ethics and Standards of Professional Conduct whether they are members of AIMR or not.

18. Where a supervisory analyst serves as an officer or director of an issuer, then the Member should not provide research on the issuer.

19. Member's must pre-approve analysts' outside business activities.

20. Where Member's set price targets as recommended under guideline 4, Members must disclose the valuation methods used.

Guidelines

In addition to the above requirements, when establishing policies and procedures as referred to under section 1 of Policy No. 11, Members must comply with the following best practices, where practicable:

1. Members should distinguish clearly in each research report between information provided by the issuer or obtained elsewhere and the analyst's own assumptions and opinions.

2. Members should disclose in their research reports and recommendations reliance by the analyst upon any report or study by third party experts other than the analyst responsible for the report. Where there is such reliance, the name of the third party experts should be disclosed.

3. ~~Members should disclose in their research reports if and to what extent the analyst has viewed the material operations of an issuer, in circumstances where such visits would assist in the analysis of the issuer's operations and would be material to the report. Members should disclose whether there has been payment or reimbursement by the issuer of the analyst's travel expenses for such visits.~~

4. ~~Members should disclose on their websites or otherwise, quarterly to the public the percentage of their recommendations that fall into each category of their recommendation terminology.~~

~~5.~~ (previously G. 5) Members should adopt standards of research coverage that include, at a minimum, the obligation to maintain and publish current financial estimates and recommendations on securities followed, and to revisit such estimates and recommendations within a reasonable time following the release of material information by an issuer or the occurrence of other relevant events. ~~Members should publish notice of their intention to suspend or discontinue coverage of an issuer.~~

5.

6. ~~Analysts should, when interviewed about individual issuers, refer to the existence of any relevant research report containing the disclosure in section 2 of Policy No. 11.~~

~~7.~~ (previously G. 7) Members should set price targets for recommended transactions, where practicable, and with the appropriate disclosure.

~~8.~~7. (previously G. 8) Members are required to use specific securities terminology in research reports where mandated by Securities Legislation. Where such terminology is not mandated, Members should ~~, in each research report using technical terminology,~~ use the specific technical terminology that is required by the relevant industry, professional association or regulatory authority or in the absence of required terminology use technical terminology that is customarily in use. Where necessary, for full understanding, a glossary should be included.

~~9.~~8. (previously G. 9) A Member should make its research reports widely available through its websites or by other means for all of its clients whom the Member has determined are entitled to receive such research reports at the same time.

~~10. Persons responsible for reviewing research in accordance with By-law 29.7 should, where possible and reasonable, have attained the Chartered Financial Analyst designation or other appropriate qualifications including industry experience.~~

9. (previously G. 10) Where feasible by virtue of the number of analysts, Members should appoint one or more supervisory analyst or head of research to be responsible for reviewing and approving research reports as required under By-law 29.7, who should be a partner, director or officer of the Member and should have the CFA designation or other appropriate qualifications. Members may have more than one supervisory analyst where necessary.

~~11.~~ 11. (previously G. 11) Members should require their analyst employees to obtain the Chartered Financial Analyst designation or other appropriate qualifications. ~~.~~

~~12. Members must obtain an annual certification from the head of the research department and chief executive officer which states that their analysts are familiar with and have complied with the AIMR Code of Ethics and Standards of Professional Conduct (or the Canadian equivalent) whether they are members of AIMR or not.~~

~~13.~~ 13. (previously G. 13) Members should require that the head of the research department, or in small firms where there is no head, then the analyst or analysts, report to a senior officer or partner who is not the head of the investment banking department. However, no policies or procedures will be approved under section 1 unless the Association is satisfied that they address the relationship between the investment banking department and research department.

~~14. Where a supervisory analyst serves as an officer or director of an issuer, then the Member should not provide research on the issuer.~~

PASSED AND ENACTED BY THE Board of Directors this • day of • 2003, to be effective on a date to be determined by Association staff.

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Chapter 25

Other Information

25.1 Exemptions

25.1.1 ADP Independent Investor Communications Corporation

Headnote

Exemption to permit dealers to satisfy the requirement under securities legislation to deliver or send a prospectus of a mutual fund by using the Smart Prospectus[SM] Service provided by ADP Independent Investors Communications Corporation.

Statutes Cited:

National Instrument 81-101- Mutual Fund Prospectus Disclosure, ss. 3.2(2), 5.1(3) and 5.2.

VIA FACSIMILE

April 21, 2003

Borden Ladner Gervais LLP

Attention: Kathryn Ash

Re: Mutual Reliance Review System ("MRRS") - Application of ADP Independent Investor Communications Corporation ("ADP") on behalf of M.R.S. Securities Services Inc. for Exemption under Section 6.1 of National Instrument 81-101 ("NI-81-101")
Application No. 133/03

By letter dated February 27, 2003, (the "Application"), ADP applied on behalf of M.R.S. Securities Services Inc. (the "Applicant") to the regulator or securities regulatory authority (the "Decision Maker") in each province and territory of Canada (collectively, the "Participating Jurisdictions") for discretionary relief from subsections 3.2(2) and 5.1(3) and section 5.2 of National Instrument 81-101 ("NI 81-101") to permit the Applicant to use the Smart Prospectus[SM] service provided by ADP and described below.

From our review of the Application and other information communicated to staff, we understand the relevant facts and representations to be as follows:

1. The Applicant is a corporation incorporated under the laws of Ontario and is registered as a dealer in the category of investment dealer in the province of Ontario and has equivalent registration in each of the other Participating Jurisdictions.

2. Among its other activities, the Applicant trades securities issued by mutual funds to its clients and processes trades of securities issued by mutual funds as a carrying dealer for other appropriately registered dealers who are introducing dealers in one or more of the Participating Jurisdictions.

3. ADP, a corporation incorporated under the laws of Ontario with its head office located in Mississauga, Ontario, is an indirect wholly-owned subsidiary of Automatic Data Processing, Inc. a corporation incorporated under the laws of the State of Delaware, United States of America.

4. ADP is in the business of investor communications including mailing or delivering preliminary prospectuses or simplified prospectuses and trade confirmations on behalf of registered dealers to their clients.

5. Registered dealers who sell securities issued by mutual funds are, pursuant to securities legislation, required to send or deliver confirmations of the trades in securities to the purchaser of such securities within specified time periods, and unless the registered dealer has previously done so, the registered dealer must send or deliver to the purchaser of such securities the latest prospectus and any amendments thereto.

6. Subsection 3.2(2) of NI 81-101 specifies that the requirement under securities legislation to deliver or send a prospectus of a mutual fund to a person or company is satisfied by delivering or sending a simplified prospectus filed under NI 81-101 and prepared in accordance with Form 81-101F1.

7. By using ADP's investor communications services, registered dealers can meet their regulatory obligations to deliver or send trade confirmations, prospectuses and other documentation as applicable, to investors.

8. ADP has developed the Smart Prospectus[SM], a proprietary technology that will permit it to print and deliver by mail or, upon the completion of further development, deliver electronically on behalf of a registered dealer or mutual fund to mutual fund investors, the Part A, if required, and if not required, a notice referring the investor to the Part A, and deliver the relevant Part B(s) of a prospectus that relate to mutual fund securities purchased or held by the investor and that have not previously been provided to the investor, regardless of the form in which the prospectus

document is filed under NI 81-101 or otherwise printed (the "Smart Prospectus[SM] Service").

9. The prospectus delivered or sent under the Smart Prospectus[SM] Service may also differ in the following respects from the prospectus filed under NI 81-101:

   (a) The prospectus will contain no colour regardless of whether there was colour in the filed document, however, colour correction will be applied to achieve the best possible black and white shading to simulate the colour differences,

   (b) The pages and, therefore, the font of the prospectus will be reduced to 95% of their size to accommodate the sequential page numbers that the Smart Prospectus[SM] Service adds, and

   (c) The pages of the prospectus will have two page numbers: one relating to the page number in the filed document and the second identifying a consecutive page number in the Smart Prospectus[SM] Service document, which pagination system is explained to the reader on the front of the prospectus.

10. Section 5.1(3) of NI 81-101 lists those documents that may be attached to or bound with a prospectus.

11. Under the Smart Prospectus[SM] Service, the following, which are not listed in Section 5.1(3) of NI 81-101, may be attached to and bound with the prospectus when delivered on behalf of a registered dealer:

   (a) A cover letter, a trade confirmation and all applicable amendments to the prospectus, and

   (b) The Part A, if required, and the pertinent Part Bs of a prospectus of a mutual fund of one or more different mutual fund families that relate to the mutual fund securities purchased by the investor, evidenced by the same trade confirmation, and any applicable amendments thereto.

12. Section 5.2 of NI 81-101 specifies the order in which documents permitted to be attached to or bound with a prospectus must be so attached or bound.

13. In the binding with or attachment to a prospectus to be delivered using the Smart Prospectus[SM] Service, the portions of a prospectus may be preceded by a cover letter and one or more of a trade confirmation or portions of prospectus for a mutual fund of another fund family.

14. The Applicant has entered/will enter into a contract with ADP that will offer the Smart Prospectus[SM] Service upon instructions from the registered dealer. ADP may enter into contracts with other dealers to use the Smart Prospectus[SM] Service. Such other dealers may also want to rely on any relief provided to the Applicant in order to use the Smart Prospectus[SM] Service (the Applicant and other dealers collectively referred to as the "Dealers").

15. ADP keeps records of the Dealers who use the Smart Prospectus[SM] Service and ADP will provide copies of such records to the Decision Makers upon request.

This letter (the "Decision") confirms that based on the information and representations made in the Application, the Decision Makers exempt the Dealers from subsections 3.2(2) and 5.1(3) and section 5.2 of NI 81-101 to permit the Dealers to satisfy the requirement under securities legislation to deliver or send a prospectus of a mutual fund by using the Smart Prospectus[SM] Service provided by ADP under contract provided that:

   (a) The Smart Prospectus[SM] Service is provided by ADP under a contract with the Dealers, the terms of which are consistent with the terms of this Decision;

   (b) When colour is removed from the prospectus, colour correction will be applied to achieve the best possible black and white shading to simulate the colour differences;

   (c) If page and font size are reduced in the prospectus, the delivered prospectus has in all cases a font size that is not less than 95% of the size of the font in the prospectus filed under NI 81-101;

   (d) If the pages of the prospectus have two page numbers: one will relate to the page number in the filed prospectus and the second will identify a consecutive page number in the Smart Prospectus[SM] Service document, which pagination system is explained to the reader on the front of the prospectus;

   (e) In addition to what is permitted under subsection 5.1(3) of NI 81-101, the documents attached to the prospectus may include one or more of a cover letter, trade confirmation related to the attached prospectus, amendments to the prospectus and the portions of a prospectus of any other mutual fund of another fund family and the trade

confirmation or cover letter clearly identify the funds purchased and the portions of the prospectus that relate thereto;

(f) The order of the documents bound or attached together shall be first the cover letter, then the trade confirmation, if any, then each prospectus together with amendments thereto and then any other documents permitted by this Decision to be attached or bound to the prospectus or that are permitted by NI 81-101 to be attached or bound to the prospectus; and

(g) The prospectus delivered or sent to an investor otherwise complies with the terms of NI 81-101.

Yours very truly,

Paul A. Dempsey

Paul A. Dempsey
Manager, Investment Funds
(416) 593-8091
pdempsey@osc.gov.on.ca

25.1.2 McGee Capital Management Limited - s. 5.1 of OSC Rule 31-506

Headnote

Section 5.1 – OSC Rule 31-506 – exemption to mutual fund dealer from the requirement to be a member of the Mutual Fund Dealers Association of Canada – exemption for a limited period of time.

Applicable Ontario Securities Commission Rule

Rule 31-506 – SRO Membership – Mutual Fund Dealers.

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

AND

IN THE MATTER OF
ONTARIO SECURITIES COMMISSION RULE 31-506
SRO MEMBERSHIP - MUTUAL FUND DEALERS (the "Rule")

AND

IN THE MATTER OF
McGEE CAPITAL MANAGEMENT LIMITED

EXEMPTION
(Section 5.1 of the Rule)

UPON the Director having received an application (the "Application") from McGee Capital Management Limited ("McGee") seeking a decision pursuant to section 5.1 of the Rule, to exempt McGee from the application of section 2.1 of the Rule, which would require McGee to be a member of the Mutual Fund Dealers Association of Canada (the "MFDA") by July 2, 2002 on the condition that McGee or an affiliated entity is a member of the MFDA by July 2, 2003;

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

AND UPON McGee having represented to the Director that:

1. McGee is registered under the Act as a mutual fund dealer and investment counsel/portfolio manager and has its head office in Ontario;

2. McGee filed a membership application (the "MFDA Application") with the MFDA in 2001;

3. the MFDA advised McGee that a MFDA member may not engage in portfolio management activities, as discretionary trading is prohibited under MFDA Rule 2.3.4;

4. McGee has established an affiliated entity, McGee & Associates Inc., that will assume the mutual fund distribution activities of McGee;

5. McGee & Associates Inc. has applied for registration as a mutual fund dealer with the Ontario Securities Commission and has applied for membership in the MFDA;

6. McGee and its affiliated entity will work diligently to obtain membership for the subsidiary in the MFDA;

7. McGee will not expand its dealer operations until such time as McGee & Associates has obtained membership in the MFDA;

8. Neither McGee nor McGee & Associates Inc. is, to its knowledge, in breach of any requirements of the Act or the regulations or rules made thereunder;

9. McGee received an exemption on June 28, 2002 (the "Initial Exemption") from the requirement of section 2.1 of the Rule on the condition that McGee, or its affiliate was a member of the MFDA by December 1, 2002. It received a second exemption on November 30, 2002 (the "Second Exemption") from the requirement of section 2.1 of the Rule on the condition that McGee, or its affiliate was a member of the MFDA by April 1, 2003;

10. neither McGee nor McGee & Associates Inc. will be a member of the MFDA by April 1, 2003.

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

IT IS THE DECISION of the Director, pursuant to section 5.1 of the Rule, that McGee is exempt from the requirement of section 2.1 of the Rule, as modified by the Initial Exemption and the Second Exemption, on the condition that from and after July 2, 2003, so long as McGee is registered as a mutual fund dealer under the Act, McGee is a member of the MFDA.

March 31, 2003.

"David M. Gilkes"

25.1.3 Aldersley Securities Inc. - s. 6.1 of OSC Rule 13-502 and s. 5.1 of OSC Rule 31-506

Headnote

Section 5.1 – OSC Rule 31-506 – exemption to mutual fund dealer from the requirement to be a member of the Mutual Fund Dealers Association of Canada – exemption for a limited period of time.

Applicable Ontario Securities Commission Rule

Rule 31-506 - SRO Membership - Mutual Fund Dealers.

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

AND

IN THE MATTER OF
ONTARIO SECURITIES COMMISSION RULE 31-506
SRO MEMBERSHIP B MUTUAL FUND DEALERS
(the "Rule")

AND

IN THE MATTER OF
ALDERSLEY SECURITIES INC.

EXEMPTION
(Section 6.1 of Ontario Securities Commission Rule 13-502 ("Fee Rule"))
(Section 5.1 of the Rule)

UPON the Director having received an application (the "Application") from Aldersley Securities Inc. ("Aldersley") seeking a decision (i) pursuant to section 5.1 of the Rule, to exempt Aldersley from the application of section 2.1 of the Rule, which would require Aldersley to be a member of the Mutual Fund Dealers Association of Canada (the "MFDA") on the condition that Aldersley is a member of the MFDA by January 1, 2004, and (ii) pursuant to section 6.1 of the Fee Rule to exempt Aldersley from the requirement to pay an application fee in respect of the Application;

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

AND UPON Aldersley having represented to the Director that:

1. Aldersley is registered under the Act as a mutual fund dealer and investment counsel and has its head office in Ontario;

2. Aldersley filed a membership application (the "MFDA Application") with the MFDA;

3. Aldersley has complied, on a timely basis, with all requests by the MFDA for information and/or documents pertaining to its MFDA Application;

4. Aldersley received an exemption from section 2.1 of the Rule prior to July 2, 2002 (the "Initial Exemption") on the condition that Aldersley be a member of the MFDA by December 1, 2002. It received a second exemption on November 30, 2002 (the "Second Exemption") from the requirement of section 2.1 of the Rule on the condition that Aldersley be a member of the MFDA by April 1, 2003;

5. the MFDA has advised Aldersley that it is considering the implications of accepting Aldersley as a member due to its registration as an Investment Counsel;

6. Aldersley is not aware of any other issues which remain unresolved between it and the MFDA in respect of its MFDA Application;

7. Aldersley is not, to its knowledge, in breach of any requirements of the Act or the regulations or rules made thereunder; and

8. Aldersley will not be a member of the MFDA by April 1, 2003.

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

IT IS THE DECISION of the Director, pursuant to section 5.1 of the Rule, that Aldersley is exempt from the requirement of section 2.1 of the Rule, as modified by the Initial Exemption and the Second Exemption, on the condition that, from and after January 1, 2004, so long as Aldersley is registered as a mutual fund dealer under the Act it is a member of the MFDA.

IT IS THE FURTHER DECISION of the Director, pursuant to section 6.1 of the Fee Rule, that Aldersley is exempt from the requirement to pay the application fee required by section 4.1 of the Fee Rule in respect of the Application.

April 1, 2003.

"David M. Gilkes"

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Index