

**IN THE MATTER OF THE SECURITIES ACT,
R.S.O. 1990, c S.5, as amended**

-AND-

IN THE MATTER OF CIBC WORLD MARKETS INC.

SETTLEMENT AGREEMENT

I INTRODUCTION

1. In a Notice of Hearing issued January 27, 2003, the Ontario Securities Commission (the "Commission") announced that it proposes to hold a hearing to consider whether, pursuant to sections 127(1) and 127.1 of the Securities Act, R.S.O. 1990, c. S.5, as amended (the "Act"), it is in the public interest for the Commission to make an order:
 - (a) approving this agreement;
 - (b) requiring that CIBC World Markets Inc. submit to a review of its practices relating to the disclosure of potential conflicts of interest in its equities research reports and institute such changes as may be ordered by the Commission;
 - (c) administering a reprimand to CIBC World Markets; and
 - (d) requiring CIBC World Markets to make a single payment of \$100,000 towards the costs of the joint investigation in this matter, to be allocated between the Commission and the Commission des valeurs mobilières du Québec ("CVMQ").

II JOINT SETTLEMENT RECOMMENDATION

2. Staff of the Commission agree to recommend settlement of the proceeding initiated in respect of CIBC World Markets by the Notice of Hearing in accordance with the terms and conditions set out below. CIBC World Markets consents to the making of an order against it in the form attached as Schedule "A" on the basis of the facts set out below.

III STATEMENT OF FACTS

3. CIBC World Markets is a corporation registered with the Commission as an Investment Dealer. It carries on business as an investment dealer in the Province of Ontario, as well as in other provinces of Canada.

4. CIBC World Markets is a wholly-owned subsidiary, and thus an affiliate, of Canadian Imperial Bank of Commerce (“CIBC”).
5. Shoppers Drug Mart Corporation is a New Brunswick corporation which operates a chain of drug stores and pharmacies across Canada. Shoppers completed an initial public offering of common shares in November, 2001 (the “IPO”).
6. CIBC World Markets acted as the lead underwriter of the IPO. The IPO closed on November 21, 2001.
7. At the time of the IPO, and as disclosed in the IPO prospectus, CIBC Capital (SD Holdings) Inc., an affiliate of CIBC World Markets, held 7,000,000 shares of Shoppers. CIBC World Markets purchased a further 450,000 shares of Shoppers pursuant to the IPO. CIBC World Markets and CIBC Capital continued to hold these shares during the period between November 21, 2001 and February 8, 2002 (the “Material Period”).
8. During the Material Period, and as disclosed in the IPO prospectus, Shoppers was indebted to CIBC. The amount of outstanding indebtedness varied from \$59.51 million to \$67.39 million during the Material Period.

The Research Reports

9. During the Material Period, CIBC World Markets published five equity research reports recommending the purchase of securities of Shoppers. The five reports were dated December 17, 2001, December 18, 2001, December 19, 2001, January 10, 2002 and February 8, 2002 (the “Research Reports”), and were intended for general circulation, being distributed both internally at CIBC World Markets and to its institutional and retail clients located throughout Canada, including the Provinces of Ontario and Quebec, upon request.
10. The Research Reports all stated that shares of Shoppers were rated as a “strong buy”.
11. On January 15, 2002, CIBC World Markets published an equity research report concerning shares of Jean Coutu Group Inc., a competitor of Shoppers, and the only other company in this market sector followed by CIBC World Markets analysts. In this report, CIBC World Markets downgraded its rating of the shares of Jean Coutu from a “strong buy” to a “hold”.

Failure to Disclose Interests

12. In the Research Reports, CIBC World Markets failed to adequately disclose the full nature of the relationship between itself and its affiliated companies and Shoppers. CIBC World Markets thus failed to adequately disclose the potential conflicts of interest inherent in its recommendation of the purchase of Shoppers shares. Specifically:

- (a) in the Research Reports, CIBC World Markets failed to adequately disclose that it had assumed an underwriting liability to Shoppers during the past 12 months, contrary to section 41 of the Act;
 - (b) in the Research Reports, CIBC World Markets failed to adequately disclose that, along with its affiliate, it owned 7,450,000 shares of Shoppers; and
 - (c) in the Research Reports, CIBC World Markets did not disclose that Shoppers was indebted to CIBC.
13. The obligation to make full disclosure in the Research Reports was important in a period when CIBC World Markets was changing its recommendation concerning the shares of Shoppers' major competitor.
14. Staff make no allegation of impropriety concerning the formulation of CIBC World Markets' recommendations regarding the purchase of shares of Shoppers or Jean Coutu during the Material Period.

First Report – December 17, 2001

15. In the 46 page research report dated December 17, 2001, CIBC World Markets stated that "CIBC World Markets, or one of its affiliated companies, has performed investment banking services for this company".
16. This report also contained the statement:
- [a] CIBC World Markets company may have acted as initial purchaser or placement agent for a private placement of any of the securities of any company mentioned in this report, may from time to time solicit from or perform financial, advisory, investment banking or other services for such company, or have lending or other credit relationships with the same.
17. This report also contained the statement:
- [a] CIBC World Markets company or its shareholders, directors, officers and/or employees, may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.
18. The latter two statements were printed in type less legible than that used in the body of the report.
19. These statements failed to adequately disclose the fact that CIBC World Markets had assumed an underwriting liability with respect to securities of Shoppers within the previous twelve months.

20. This report incorrectly stated the number of shares of Shoppers held by CIBC World Markets and its affiliates, disclosing only the 7,000,000 shares held by CIBC Capital.
21. This report did not disclose the fact that Shoppers was indebted to CIBC.

Second Report – December 18, 2001

22. The two page research report dated December 18, 2001 contained the statement:
 - [a] CIBC World Markets company may have acted as initial purchaser or placement agent for a private placement of any of the securities of any company mentioned in this report, may from time to time solicit from or perform financial, advisory, investment banking or other services for such company, or have lending or other credit relationships with the same.
23. This report also contained the statement :
 - [a] CIBC World Markets company or its shareholders, directors, officers and/or employees, may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.
24. Both of these statements were printed in type less legible than that used in the body of the report.
25. These statements failed to adequately disclose the fact that CIBC World Markets had assumed an underwriting liability with respect to securities of Shoppers within the previous twelve months.
26. These statements failed to adequately disclose the fact that CIBC World Markets and its affiliates owned 7,450,000 shares of Shoppers.
27. These statements did not disclose the fact that Shoppers was indebted to CIBC.

Third Report – December 19, 2001

28. The four page research report dated December 19, 2001 contained the statement:
 - [a] CIBC World Markets company may have acted as initial purchaser or placement agent for a private placement of any of the securities of any company mentioned in this report, may from time to time solicit from or perform financial, advisory, investment banking or other services for such company, or have lending or other credit relationships with the same.
29. This report also contained the statement :
 - [a] CIBC World Markets company or its shareholders, directors, officers and/or employees, may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

30. Both of these statements were printed in type less legible than that used in the body of the report.
31. These statements failed to adequately disclose the fact that CIBC World Markets had assumed an underwriting liability with respect to securities of Shoppers within the previous twelve months.
32. These statements failed to adequately disclose the fact that CIBC World Markets and its affiliates owned 7,450,000 shares of Shoppers.
33. These statements did not disclose the fact that Shoppers was indebted to CIBC.

Fourth Report – January 10, 2002

34. The five page research report dated January 10, 2002 contained the statement:
 - [a] CIBC World Markets company may have acted as initial purchaser or placement agent for a private placement of any of the securities of any company mentioned in this report, may from time to time solicit from or perform financial, advisory, investment banking or other services for such company, or have lending or other credit relationships with the same.
35. This report also contained the statement :
 - [a] CIBC World Markets company or its shareholders, directors, officers and/or employees, may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.
36. Both of these statements were printed in type less legible than that used in the body of the report.
37. These statements failed to adequately disclose the fact that CIBC World Markets had assumed an underwriting liability with respect to securities of Shoppers within the previous twelve months.
38. These statements failed to adequately disclose the fact that CIBC World Markets and its affiliates owned 7,450,000 shares of Shoppers.
39. These statements did not disclose the fact that Shoppers was indebted to CIBC.

Fifth Report – February 8, 2002

40. The six page research report dated February 8, 2002 contained the statement “CIBC World Markets, or one of its affiliated companies, managed or co-managed a public offering for securities for Shoppers Drug Mart within the last three years”.

41. This report also contained the statement:
- [a] CIBC World Markets company may have acted as initial purchaser or placement agent for a private placement of any of the securities of any company mentioned in this report, may from time to time solicit from or perform financial, advisory, investment banking or other services for such company, or have lending or other credit relationships with the same.
42. This report also contained the statement:
- [a] CIBC World Markets company or its shareholders, directors, officers and/or employees, may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.
43. All of these statements were printed in type less legible than that used in the body of the report.
44. These statements failed to adequately disclose the fact that CIBC World Markets had assumed an underwriting liability with respect to securities of Shoppers within the previous twelve months.
45. These statements failed to adequately disclose the fact that CIBC World Markets and its affiliates owned 7,450,000 shares of Shoppers.
46. These statements did not disclose the fact that Shoppers was indebted to CIBC.

Cooperation with Staff

47. CIBC World Markets has cooperated with Staff of the OSC and the CVMQ in the course of the joint investigation of this matter.

IV RESPONDENT'S POSITION

48. CIBC World Markets states that, since the Material Period, it has enacted additional policies and procedures to better ensure disclosure of potential conflicts of interest in its equities research reports.

V TERMS OF SETTLEMENT

49. CIBC World Markets agrees to the following terms of settlement:

- (a) the Commission will make an order under subsection 127(1)(4) of the Act requiring CIBC World Markets to submit to a review of its practices relating to the disclosure of potential conflicts of interest in its equities research reports.

The purpose of the review will be to ensure that CIBC World Markets adopts industry best practices with regard to the identification and disclosure of potential conflicts of interest in such reports, including the conflicts of interest identified in section III of this agreement.

The review will be conducted by AssetRisk Advisory at CIBC World Markets' expense. AssetRisk Advisory will identify industry best practices in this area, assess whether CIBC World Markets' current practices meet this standard, and propose improvements, if required.

AssetRisk Advisory will provide a report summarizing its review and recommendations in draft form to both Staff of the Commission and CIBC World Markets. Both Staff and CIBC World Markets will have an opportunity to comment on the report in its draft form. AssetRisk Advisory will then prepare a final report.

The AssetRisk final report will be submitted to the Commission for its approval. Representatives of both CIBC World Markets and Staff will have the opportunity to make representations to the Commission regarding the improvements, if any, proposed in the final report. The Commission may then order CIBC World Markets to implement any or all of the recommended improvements pursuant to section 127(1)(4) of the Act.

If the Commission makes such an order, six months following the date of the order, AssetRisk will conduct a further review of CIBC World Markets' practices to ensure that any required changes have been implemented. This further review will be conducted at CIBC World Markets' expense, and a copy of the resulting report will be provided to CIBC World Markets and to Staff of the Commission.

- (b) the Commission will make an order under subsection 127(1)(6) of the Act that CIBC World Markets be reprimanded; and
- (c) CIBC World Markets agrees to make a single payment in the amount of \$100,000 in respect of a portion of the costs of the joint investigation of this matter.

The proceeds of this payment will be allocated between the Commission and the CVMQ as mutually agreed between the Staffs of the Commission and of the CVMQ.

VI STAFF COMMITMENT

50. If this agreement is approved by the Commission, Staff will not initiate any complaint to the Commission or any other proceeding under the Act, or request that the Commission hold a hearing or issue any other order in respect of the conduct or alleged conduct of CIBC World Markets in relation to the facts set out in section III of this agreement.

VII PROCEDURE FOR APPROVAL OF SETTLEMENT

51. The approval of this agreement shall be sought at a joint public hearing held before the Commission and the CVMQ scheduled for a date to be agreed by Staff and CIBC World Markets (the “Settlement Hearing”), in accordance with the procedures set out in this agreement and the Commission’s Rules of Practice.
52. Staff and CIBC World Markets agree that if this agreement is approved by the Commission, it, along with copies of the Research Reports, will constitute the entirety of the evidence to be submitted regarding CIBC World Markets in this matter, and CIBC World Markets agrees to waive its rights to a full hearing and appeal of this matter.
53. Staff and CIBC World Markets agree that if this agreement is approved by the Commission, neither party to this agreement will make any public statement inconsistent with this agreement.
54. If, at the conclusion of the Settlement Hearing, and for any reason whatsoever, this agreement is not approved by the Commission, or an order in the form attached as Schedule “A” is not made by the Commission:
- (a) this agreement and all negotiations leading up to it shall be without prejudice to Staff and CIBC World Markets and each of Staff and CIBC World Markets will be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations contained in the Notice of Hearing and Statement of Allegations, unaffected by this agreement or the settlement negotiations; and
 - (b) CIBC World Markets agrees that it will not, in any proceeding, refer to or rely upon this agreement or the negotiation or process of approval of this agreement as the basis for any attack on the Commission’s jurisdiction, alleged bias, alleged unfairness or any other remedies or challenges that may otherwise be available.

VIII DISCLOSURE OF AGREEMENT

55. Counsel for Staff or for CIBC World Markets may refer to all or part of this agreement and the Research Reports in the course of the Settlement Hearing. Otherwise, this agreement and its terms will be treated as confidential by both parties until the commencement of the Settlement Hearing.

IX EXECUTION OF SETTLEMENT AGREEMENT

56. This agreement may be signed in one or more counterparts which together shall constitute a binding agreement and a facsimile copy of any signature shall be as effective as an original signature.

DATED this 7th day of February, 2003

CIBC WORLD MARKETS INC.

(Per) “Brian Shaw”
Brian Shaw

(Per) “Jacqueline Moss”
Jacqueline Moss

DATED this 12th day of February, 2003

**STAFF OF THE ONTARIO
SECURITIES COMMISSION**

(Per) “Michael Watson”
Michael Watson
Director, Enforcement Branch