

13.1.3 Changes to CNQ Rules and Policies

CHANGES TO CNQ RULES AND POLICIES

(Blacklined to show changes from version published October 7, 2005)

RULE 1

INTERPRETATION AND GENERAL PROVISIONS

1-101 Definitions

(2) In these Rules, unless the subject matter or context otherwise requires:

“**Alternative Market**” means the market for trading Alternative Market securities;

“**Alternative Market security**” means a security other than a CNQ-listed security that is listed on another Canadian stock exchange and ~~that is designated to trade in the Alternative Market~~ approved for trading on CNQ;

“**ask**” or “**offer**” means the lowest price of an order to sell at least one Board Lot of a particular CNQ-listed security or Alternative Market security posted in the CNQ System.

“**bid**” means the highest price of an order to buy at least one Board Lot of a particular CNQ-listed or Alternative Market security posted in the CNQ System.

“**CNQ Contract**” means any contract:

- (a) to buy or sell any CNQ-listed security or Alternative Market security, if such contract is made through the facilities of CNQ; or
- (b) for delivery of and payment for any CNQ-listed security or Alternative Market security (or security which was a CNQ-listed security or Alternative Market Security when the contract was made) arising from settlement through the Clearing Corporation of a trade made through the facilities of CNQ.

“**CNQ listed market**” means the market for trading CNQ-listed securities.

“**CNQ-listed security**” means a security ~~of a CNQ-listed company that has been listed and approved for trading on CNQ and, but for greater certainty does not include a security traded in the Alternative Market~~ includes a CNQ-listed security that is also listed on another Canadian stock exchange;

“**COP**” or “**Calculated Opening Price**” means the price ~~of opening trades in a CNQ-listed security or an Alternative Market security, calculated in the manner prescribed by the Board~~ established by the CNQ System for the opening of trading in a CNQ security;

“**quotation**” means an order to buy and an order to sell a CNQ-listed security entered by a Market Maker in its capacity as such;

1-102 Interpretation

(2) For the purpose of determining the “**board lot reference price**” where a sale of at least a Board Lot of a security has not occurred in the CNQ System on a trading day, the ~~last sale~~ board lot reference price is the price:

- (a) of the last sale of the security on the CNQ System;
- (b) at which the security was issued, if the security has not previously traded on a market place; or
- (c) which has been accepted by the Market Regulator, in any other circumstance.

(3) For the purpose of determining the price at which a security is trading for the purposes of the definition of “Board Lot,” the price shall be the ~~last sale~~ board lot reference price of the particular security.

RULE 3

GOVERNANCE OF TRADING

3-101 Trading Sessions

- (1) The CNQ System shall be open for order entry and trading on each Business Day.
- (2) Unless otherwise changed by resolution of the Board, the CNQ System shall be open for continuous trading from 8:00 a.m. to 6:00 p.m.

3-102 Trading Suspensions and Halts

~~(a)~~(1) The CNQ Board may at any time:

- (a) suspend order entry and trading on the CNQ System;
- (b) close the CNQ System; or
- (c) reduce, extend or otherwise alter the time of operation of the CNQ System.

~~(b)~~(2) The CNQ Board, the Chairman, the President or senior officer designated by the President to act in his or her absence may, in the event of an emergency or a technical problem with the CNQ Trading and Access Systems that is substantially impairing trading or will likely substantially impair trading if not resolved,

- (a) suspend all order entry and trading or order entry and trading in particular CNQ-listed securities for that Trading Day; or
- (b) reduce, extend or otherwise alter the time of operation of the CNQ System for that Trading Day.

~~(c)~~(3) The Market Regulator may halt order entry and trading on the CNQ System in any CNQ-listed security at any time and for such period of time as the Market Regulator may consider appropriate in the interest of a fair and orderly market.

~~(d)~~(4) Notwithstanding any other provision, the Market Regulator may delay the opening of trading in any CNQ-listed security after the customary time of opening for any period in order to assist in the orderly opening of such trading.

3-105 General Prescriptive Power

CNQ may prescribe such other terms and conditions, as CNQ considers appropriate in the circumstances, related to:

- ~~(10-101)~~(a) trading in CNQ-listed securities; and
- ~~(10-102)~~(b) settlement of trades in CNQ-listed securities.

RULE 4

TRADING OF CNQ-LISTED SECURITIES

4-103 Minimum Price Variation

The minimum trading increment for CNQ-listed securities shall be as follows:

Price per security	Increment
less than \$0.50	\$0.005
\$0.50 and higher	\$0.01

4-104 Advantage Goes with Securities Sold

- (1) In all trades of CNQ-listed securities, all entitlements to receive dividends or any other distribution made or right given to holders of that security shall pass with the security and shall belong to the purchaser, unless otherwise provided by CNQ, the Market Regulator or the parties to the trade by mutual agreement.

(2) Claims for dividends, rights or any other benefits to be distributed to holders of record of CNQ-listed securities on a certain date shall be made in accordance with the procedures established by the Clearing Corporation.

~~(4)~~(3) If subscription rights attaching to securities are not claimed by the persons entitled to those rights at least twenty-four hours before the expiration of the time within which trading in respect of such rights may take place on the CNQ System, a CNQ Dealer holding such rights may, in its direction, sell or exercise all or any part of such rights, and shall account for such sale or exercise to the person or persons entitled to such rights, but in no case shall a CNQ Dealer be liable for any loss arising through failure to sell or exercise any unclaimed rights.

4-105 Foreign Currency Trading

~~(2)~~(1) A report of a cross trade in a CNQ-listed security agreed to in a foreign currency that is reported in Canadian dollars shall be converted to Canadian dollars using the mid-market spot rate or 7-day forward exchange rate in effect at the time of the trade, plus or minus 15 basis points, rounded down to the nearest whole cent, and vice versa.

~~(4)~~(2) The CNQ Dealer making the cross shall keep a record of the exchange rate used.

TYPES OF ORDERS THAT MAY BE ENTERED

4-106 Entry of Orders for CNQ-Listed Securities with No Market Maker

(1) Any CNQ Dealer may enter

- (a) orders and
- (b) crosses at any price between the bid and offer

into the CNQ System for a CNQ-listed security for which no CNQ Dealer is acting as Market Maker.

(2) Orders (other than special terms orders and crosses) may be entered on a fully-disclosed or partially disclosed basis.

(3) Orders entered on a partially-disclosed basis must disclose at least 50% of the total volume on entry and must be at least 5 Board Lots in size.

4-108 Fair Prices

A CNQ Dealer dealing in a CNQ-listed security for its own account with a customer shall buy or sell at a fair price, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense involved, and the fact that it is entitled to a profit; and if the Dealer acts as agent in any such transaction, it shall not charge the customer more than a fair commission or service charge, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense of executing the order and the value of any service it may have rendered by reason of its experience in and knowledge of such security and the market.

Commentary: Rule 4-108 — Mark-Up Policy

It is a violation of Rule 4-108 for a CNQ Dealer to enter into any transaction with a customer in any CNQ-listed security at any price not reasonably related to the current market price of the security or to charge a commission that is not reasonable. The Ontario Securities Commission has also held that excessive mark-ups are contrary to public policy in several enforcement actions against securities dealers operating in the over-the-counter market.

The following guidelines, which are adapted from the NASD Regulation Inc. IM-2440, apply to dealings with customers in CNQ-listed securities. In addition, CNQ Dealers are reminded that all other applicable rules (for example, the best execution and customer-principal trading rules) also apply to trades subject to Rule 4-108.

(1) General Considerations

(a) A dealer shall not excessively charge a customer on a transaction in a CNQ security. "Charges," which are referred to as "mark-ups" in this Policy, may take the form of premiums or discounts from the prevailing market price, commissions, or profit from the difference between acquisition and disposition price in a riskless or near-riskless trade. Generally speaking, mark-ups should not be more than 5% of the purchase price, but this is a guideline and not a limit. Depending on the circumstances, a mark-up pattern of 5% or even less may be considered unfair or unreasonable while, in other circumstances, mark-ups above 5% may be justified.

- (b) A Dealer may not justify mark-ups on the basis of expenses that are excessive.
- (c) The mark-up over the prevailing market price is the significant spread from the point of view of fairness of dealings with customers in principal transactions. *In the absence of other bona fide evidence of the prevailing market, a Dealer's own contemporaneous cost is the best indication of the prevailing market price of a security.*
- (d) Determination of the fairness of mark-ups must be based on a consideration of all the relevant factors, of which the percentage of mark-up is only one.

(2) Relevant Factors

Some of the factors which CNQ Dealers should take into consideration in determining the fairness of a mark-up are as follows:

- (a) *The Availability of the Security in the Market.* In the case of an inactive security the effort and cost of buying or selling the security, or any other unusual circumstances connected with its acquisition or sale, may have a bearing on the amount of mark-up justified.
- (b) *The Price of the Security.* While there is no direct correlation, the percentage of mark-up or rate of commission generally increases as the price of the security decreases. Even where the amount of money is substantial, transactions in lower priced securities may require more handling and expense and may warrant a wider spread.
- (c) *The Amount of Money Involved in a Transaction.* A transaction which involves a small amount of money may warrant a higher percentage of mark-up to cover the expenses of handling.
- (d) *Disclosure.* Any disclosure to the customer, before the transaction is effected, of information that would indicate (i) the amount of commission charged in an agency transaction or (ii) mark-up made in a principal transaction is a factor to be considered. Disclosure itself, however, does not justify a commission or mark-up which is unfair or excessive in light of all other relevant circumstances.
- (e) *The Pattern of Mark-Ups.* While each transaction must meet the test of fairness, CNQ believes that particular attention should be given to the pattern of a Dealer's mark-ups.
- (f) *The Nature of the Dealer's Business.* Different services and facilities are needed by, and provided for, customers of Dealers. If not excessive, the cost of providing such services and facilities, particularly when they are of a continuing nature, may properly be considered in determining the fairness of a Dealer's mark-ups.

(3) Transactions to Which the Policy is Applicable

The Policy applies to trading in CNQ-listed securities, and particular, in the following transactions:

- (a) A transaction in which a Dealer buys a security to fill an order for the same security previously received from a customer. This transaction would include the so-called "riskless" or "simultaneous" transaction.
- (b) A transaction in which the Dealer sells a security to a customer from inventory. In such a case the amount of the mark-up would be determined on the basis of the mark-up over the bona fide representative current market. The amount of profit or loss to the Dealer from market appreciation or depreciation before, or after, the date of the transaction with the customer would not ordinarily enter into the determination of the amount or fairness of the mark-up. If however, the Dealer dominates trading in the market or is part of a group that dominates trading in the market, the acquisition or disposition cost before or after the date of the transaction with the customer is the basis on which the mark-up is to be calculated, and not the prevailing market at the time of the trade.
- (c) A transaction in which a Dealer purchases a security from a customer. The price paid to the customer or the mark-down applied by the Dealer must be reasonably related to the prevailing market price of the security. Again, if the Dealer dominates trading in the market or is part of a group that dominates trading in the market, the acquisition or disposition cost before or after the date of the transaction with the customer is the basis on which the mark-down is to be calculated, and not the prevailing market at the time of the trade.
- (d) A transaction in which the Dealer acts as agent. In such a case, the commission charged the customer must be fair in light of all relevant circumstances.

- (e) Transactions wherein a customer sells securities to, or through, a Dealer, the proceeds of which are utilized to pay for other securities purchased from, or through, the Dealer at or about the same time. In such instances, the mark-up shall be computed in the same way as if the customer had purchased for cash and in computing the mark-up there shall be included any profit or commission realized by the Dealer on the securities being liquidated, the proceeds of which are used to pay for securities being purchased.

TRADING IN THE SYSTEM

4-109 Trading at the Opening

~~(2)~~(1) Subject to Rules 4-106, 4-107, and 4-114, the following orders may be entered prior to the opening:

- (a) limit orders;
 - (b) unpriced orders; and
 - (c) hit and take orders.
- (2) Special Terms Orders may be entered prior to the opening but shall not trade at the opening.
- (3) Orders eligible to trade at the opening are displayed at the COP and all trades at the opening are at the COP.
- (4) Any orders that remain unfilled after the opening remain entered on the CNQ System and have time priority based on the actual time of entry.

4-111 Trading After the Opening

- (1) A tradeable order, including a Client Matching Order, for a CNQ-listed security shall be allocated among offsetting orders on the bid or offer (as the case may be) individually by time priority.
- (2) The undisclosed portion of a partially-disclosed order does not have time priority until it is disclosed, at which time it ranks behind all other orders in the CNQ System at that price.

MARKET MAKERS

4-112 Appointment of Market Makers

- (1) A CNQ Dealer wishing to make a market in a CNQ-listed security shall file notice thereof with CNQ on the prescribed form and shall become obligated to perform the functions of a Market Maker upon approval by CNQ.
- (2) Subject to Rule 4-101, a CNQ Dealer approved as a Market Maker shall appoint a Primary Trader to perform the obligations set out in these Rules and an Alternate Trader to act in the absence of the Primary Trader.
- (3) A CNQ Dealer approved as a Market Maker must maintain a two-sided continuous quotation for a period of not less than three consecutive calendar months and must give CNQ at least 30 days advance notice of its intention to relinquish any Market Maker Obligations.
- (4) A CNQ Dealer which ceases to act as a Market Maker in respect of a CNQ-listed security may not become a Market Maker in that security for a period of 30 days.
- (5) CNQ may in its sole discretion designate a CNQ Dealer as a Market Maker in respect of a CNQ-listed security where the CNQ Dealer's trading activities suggest the market will be better served by the CNQ Dealer assuming the responsibilities of a Market Maker.

RULE 5

CLEARING AND SETTLEMENT OF TRADES

5-102 Clearing and Settlement

All trades on the CNQ System shall be reported, confirmed and settled through the Clearing Corporation pursuant to the Clearing Corporation's rules and procedures, unless otherwise authorized or directed by CNQ.

5-103 Settlement of CNQ Trades

- (1) Trades shall settle on the third settlement day after the trade date, unless otherwise provided by CNQ or the parties to the trade by mutual agreement.
- (2) Notwithstanding Rule 5-103(1), unless otherwise provided by CNQ or the parties to the trade by mutual agreement:
 - (a) trades on a when issued basis made:
 - (i) prior to the second Trading Day before the anticipated date of issue of the security shall be settled on the anticipated date of issue of such security, and
 - (ii) on or after the second Trading Day before the anticipated date of issue of the security shall settle on the third settlement day after the trade date,provided if the security has not been issued on the date for settlement such trades shall be settled on the date that the security is actually issued;
 - (b) trades for rights, warrants and installment receipts made:
 - (i) on the third Trading Day before the expiry or payment date shall be for special settlement on the settlement day before the expiry or payment date;
 - (ii) on the second and first Trading Day before the expiry or payment date, shall be cash trades for next day settlement, and
 - (iii) on expiry or payment date shall be cash trades for immediate settlement and trading shall cease at 12:00 Noon (unless the expiry or payment time is set prior to the close of business in which case trading shall cease at the close of business on the first Trading Day preceding the expiry or payment),provided selling CNQ Dealers must have the securities that are being sold in their possession or credited to the selling account's position prior to such sale;
 - (c) cash trades for next day delivery shall be settled through the facilities of the Clearing Corporation on the first settlement cycle following the date of the trade or, if applicable, over-the-counter, by noon of the first settlement day following the trade; and
 - (d) cash trades that have been designated by CNQ for same day settlement shall be settled by over-the-counter delivery no later than 2:00 p.m. on the trade day.
- (3) Notwithstanding Rule 5-103(1), a CNQ Contract may specify delayed delivery which shall provide the seller with the option to deliver at any time within the period specified in the contract, and, if no time is specified, delivery shall take place at the option of the seller within thirty days from the date of the trade unless the parties by mutual agreement specify a delivery date more than thirty days from the date of the trade.

5-107 Corners

- (1) If CNQ is of the opinion that a single interest or group has acquired such control of a security that the security cannot be obtained for delivery on existing CNQ Contracts except at prices and on terms arbitrarily dictated by such interest or group, CNQ may postpone the time for delivery on CNQ Contracts and provide that any CNQ Contract calling for delivery prior to the time established by CNQ shall be settled by the payment to the party entitled to receive such security of a fair settlement price.

- (2) If the parties to any CNQ Contract that is to be settled by payment of a fair settlement price cannot agree on the amount, CNQ shall fix the fair settlement price and the date of the payment after providing each party with an opportunity to be heard.

5-108 When Security Disqualified, Suspended or No Fair Market

- (1) CNQ may postpone the time for delivery on CNQ Contracts if:
- (a) the security is delisted;
 - (b) trading is suspended in the security; or
 - (c) CNQ is of the opinion that there is not a fair market in the security.
- (2) If CNQ is of the opinion that a fair market in the security is not likely to exist CNQ may provide that CNQ Contracts be settled by payment of a fair settlement price and if the parties to a CNQ Contract cannot agree on the amount, CNQ shall fix the fair settlement price after providing each party with an opportunity to be heard.

5-110 Restrictions on CNQ Dealers' Involvement in Buy-ins

- (1) No CNQ Dealer shall knowingly permit any person on whose behalf a Buy-In Notice has been issued to fill all or any part of such order by selling the securities for the account of that person or an associated account and prior to selling to a buy-in, the CNQ Dealer, shall receive written or verbal confirmation that the order to sell is not being placed on behalf of the account of the person on whose behalf the Buy-In Notice was issued or an associated account.
- (2) A CNQ Dealer that issued a Buy-In Notice and the CNQ Dealer against whom a Buy-In Notice has been issued may supply all or a part of the securities provided that the principal supplying the listed securities is not:
- (a) the CNQ Dealer;
 - (b) a Related Person; or
 - (c) an associate of any person described in Rules 5-110(2)(a) or (b).
- (3) If securities are supplied by the CNQ Dealer that issued the Buy-In Notice, delivery shall be made in accordance with the terms of the contract thus created, and the CNQ Dealer shall not, by consent or otherwise, fail to make such delivery.

RULE 9

REPORTING TRADES

9-101 Secondary Market Options

- (1) A CNQ Dealer receiving an option to purchase or sell a CNQ-listed security shall report the following details of the option to CNQ
- (a) the trading symbol of the security;
 - (b) the number of units of the security underlying the option;
 - (c) whether the option is a put or call option;
 - (d) the identification of the party granting the option;
 - (e) the exercise price; and
 - (f) such other information as may be prescribed from time to time.
- in the format prescribed from time to time by the end of the Business Day on which the option is received.
- (2) If the option is granted after the close of trading in the CNQ listed market, the Dealer shall report prior to the opening of trading on the following Business Day.

RULE 10

SALES PRACTICES IN THE CNQ LISTED MARKET

10-102

Without limiting the foregoing, no CNQ Dealer or Related Person of a CNQ Dealer shall

- (a) use high pressure sales tactics in order to induce a person to buy, sell or hold a CNQ-listed security;
- (b) take advantage of a person's inability or incapacity to reasonably protect his or her own interest because of physical or mental infirmity, ignorance, illiteracy, age or inability to understand the character, nature or language of any matter relating to a decision to buy, sell, or hold a CNQ-listed security;
Interpretation Note: The intent of the rule is to prohibit abusive sales practices that were used by broker-dealers (that were not SRO members) in the over-the-counter market. It does not create a suitability obligation where one does not otherwise exist.
- (c) impose terms or conditions that make a transaction in a ~~CNQ-Issuer~~ CNQ-listed security inequitable;
- (d) make any statement which the CNQ Dealer or Related Person knows or reasonably ought to know is false or misleading to induce a client to buy sell or hold a CNQ-listed security; or
- (e) employ a tiered or other sales force structure that purports to relieve a person recommending an order for a CNQ-listed security directly or indirectly from a client from the obligation to ensure that the trade is suitable for that client.

10-103

A CNQ Dealer shall not reduce or retract all or any portion of the sales commission paid or payable to a registered representative in connection with a trade in a CNQ-listed security in the event the client to whom the securities were traded resells those securities.

10-104

When recommending any trade with a client in a CNQ-listed security, a CNQ Dealer or the registered representative shall disclose to the client, orally or in writing, the following:

- (a) if the CNQ Dealer is acting as principal (or as agent for another CNQ Dealer acting as principal);
- (b) if the CNQ Dealer will concurrently acquire the securities to supply to the customer in a riskless principal transaction, the CNQ Dealer's cost of acquisition; and
- (c) if the security being traded does not have a market maker or the CNQ Dealer is the sole market maker.

RULE 11

TRADING OF ALTERNATIVE MARKET SECURITIES

11-101 Application of Rules

The following rules apply to trading in the Alternative Market and any reference to CNQ-listed securities, unless the context otherwise requires, shall be deemed to be a reference to Alternative Market securities and any reference to delisting, unless the context otherwise requires, shall be deemed to be a reference to disqualification from trading in the Alternative Market:

- (a) Rule 1 in its entirety;
- (b) Rule 2 in its entirety;
- (c) Rule 3 in its entirety;
- (d) Rule 4-101;

- (e) Rule 5 in its entirety;
- (f) Rule 6-102;
- (g) Rule 7 in its entirety; and
- (h) Rule 8-101.

11-102 Qualification for Alternative Market

- (1) CNQ may designate securities listed on another stock exchange recognized in a jurisdiction in Canada as eligible for trading in the Alternative Market provided such securities are not suspended or subject to a regulatory halt.
- (2) CNQ may disqualify an Alternative Market security for trading at any time without prior notice.
- (3) Notwithstanding the foregoing, an Alternative Market security shall be disqualified for trading immediately
 - (a) upon suspension or delisting by another stock exchange if such suspension or delisting would result in CNQ being the only stock exchange on which the security would trade in Canada;
 - (b) if the security is subject to a regulatory halt; or
 - (c) if CNQ, acting reasonably, determines that disqualification is necessary to protect the public interest or the maintenance of a fair and orderly market.

11-103 Access by Eligible Clients to the Alternative Market

- (1) In this Rule,
 - “eligible client” means
 - (a) a client that falls within the definition of “acceptable counterparties” or “acceptable institutions” as defined in the General Notes and Definitions section of the Joint Regulatory Financial Questionnaire and Report;
 - (b) a client that is registered as an investment counselor or portfolio manager under the *Securities Act* of one or more of the provinces of Canada;
 - (c) a client that is a foreign broker or dealer (or the equivalent registration) registered with the appropriate regulatory body in the broker’s or dealer’s home jurisdiction and that is an affiliate of a CNQ Dealer acting for its own account, the accounts of other eligible clients or the accounts of its clients;
 - (d) a client that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with the client and falls into one of the following categories:
 - (i) an insurance company as defined in section 2(13) of the U.S. Securities Act of 1933,
 - (ii) an investment company registered under the U.S. Securities Act of 1933 or any business development company as defined in section 2(a)(48) of the Act,
 - (iii) a small business investment company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the U.S. Small Business Investment Act of 1958,
 - (iv) a plan established and maintained by a U.S. state, its political subdivisions, or any agency or instrumentality of a U.S. state or its political subdivisions, for the benefit of its employees,
 - (v) an employee benefit plan within the meaning of Title I of the U.S. Employee Retirement Income Securities Act of 1974,
 - (vi) a trust fund whose trustee is a bank or trust company and whose participants are exclusively plans of the types identified in (iv) or (v) above, except trust funds that include as participants individual retirement accounts or U.S. H.R. 10 plans,

- (vii) a business development company as defined in section 202(a)22 of the Investment Advisors Act of 1940,
 - (viii) an organization described in section 501(c)(3) of the U.S. Internal Revenue Code, corporation (other than a bank as defined in section 3(a)2 of the U.S. Securities Act of 1933 or a savings and loan association or other institution referenced in section 3(a)(5)(A) of the U.S. Securities Act of 1933 or a foreign bank or savings and loan association or equivalent institution), partnership or Massachusetts or similar business trust, and
 - (ix) an investment advisor registered under the U.S. Investment Advisors Act;
- (e) a client that is a dealer registered pursuant to section 15 of the U.S. Securities Exchange Act of 1934, acting for its own account or the accounts of other eligible clients, that in the aggregate owns and invests on a discretionary basis at least \$10 million of securities of issuers that are not affiliated with the dealer, provided that securities constituting the whole or a part of an unsold allotment to or subscription by a dealer as a participant in a public offering shall not be deemed to be owned by such dealer;
 - (f) a client that is an investment company registered under the U.S. Investment Company Act, acting for its own account or for the accounts of other eligible clients, that is part of a family of investment companies which own in the aggregate at least \$100 million in securities of issuers, other than issuers that are affiliated with the investment company or are part of such family of investment companies and, for these purposes, "family of investment companies" means any two or more investment companies registered under the U.S. Investment Company Act, except for a unit investment trust whose assets consist solely of shares of one or more registered investment companies, that have the same investment advisor (or, in the case of unit investment trusts, the same depositor), provided, for these purposes:
 - (i) each series of a series company (as defined in Rule 18f-2 under the U.S. Investment Company Act) shall be deemed to be a separate investment company, and
 - (ii) investment companies shall be deemed to have the same adviser (or depositor) if their advisers (or depositors) are majority-owned subsidiaries of the same parent, or if one investment company's adviser (or depositor) is a majority-owned subsidiary of the other investment company's adviser (or depositor);
 - (g) a client, all of the equity owners of which are eligible clients, acting for its own account or the accounts of other eligible clients;
 - (h) a client that is a bank as defined in section 3(a)(2) of the U.S. Securities Act of 1933, or any savings and loan institution or other institution as referenced in section 3(a)(5)(A) of the U.S. Securities Act of 1933, acting for its own account or the accounts of other eligible clients, that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with it and that has an audited net worth of at least \$25 million; and
 - (i) a client that enters an order through an order execution account; and

an "order execution account" is a client account in respect of which a CNQ Dealer is exempted, in whole or in part, from making a determination on the suitability of trades for the client in accordance with the requirements of a securities regulatory authority or a recognized self-regulatory organization.

- (2) In determining the aggregate amount of securities owned and invested on a discretionary basis by an entity, the following instruments and interests shall be excluded: bank deposit notes and certificates of deposit; loan participations; repurchase agreements; securities owned but subject to a repurchase agreement; and currency, interest rate and commodity swaps.
- (3) The aggregate value of securities owned and invested on a discretionary basis by an entity shall be the cost of such securities, except where the entity reports its securities holdings in its financial statements on the basis of their market value and no current information with respect to the cost of those securities has been published and in the latter event, the securities may be valued at market.
- (4) In determining the aggregate amount of securities owned by an entity and invested on a discretionary basis, securities owned by subsidiaries of the entity that are consolidated with the entity in its financial statements prepared in accordance with generally accepted accounting principles may be included if the investments of such subsidiaries are managed under the discretion of the entity, except that, unless the entity is a reporting company under section 13 or

15(d) of the U.S. Securities Exchange Act, securities owned by such subsidiaries may not be included if the entity itself is a majority-owned subsidiary that would be included in the consolidated financial statements of another enterprise.

- (5) A CNQ Dealer may transmit orders received electronically from an eligible client in an Alternative Market security directly to the CNQ System provided that the CNQ Dealer has obtained prior written approval from CNQ
- (a) that the system of the CNQ Dealer meets the prescribed conditions;
 - (b) for the standard form of agreement containing the prescribed conditions to be entered into between the CNQ Dealer and an eligible client and the CNQ Dealer has entered into an agreement in such form with the eligible client; and
 - (c) for any amendments to the standard form of agreement;
- and has met such other conditions as prescribed.
- (6) For the purposes of Rule 11-103(5)(a), the system of the CNQ Dealer is required to:
- (a) support compliance with CNQ Requirements dealing with the entry and trading of orders by all eligible clients who will have direct access (for example, supporting all valid order information that may be required, including designation of short sales);
 - (b) ensure security of access to the system (for example, through a password that will only enable persons at the eligible client authorized by the CNQ Dealer to have access to the system);
 - (c) comply with the specific requirements prescribed pursuant to Rule 4-101A(5);
 - (d) provide the CNQ Dealer with an immediate report of the entry or execution of orders;
 - (e) enable the CNQ Dealer to employ order parameters or filters that will route orders over a certain size or value to the CNQ Dealer's trading desk (which parameters can be customized for each eligible client on the system) and to reject orders that do not fall within those designated parameters;
 - (f) enable the CNQ Dealer to transmit information concerning orders entered by eligible clients to the CNQ Dealer's compliance staff on a real time basis; and
 - (g) support any other requirements of this Rule.
- (7) For the purposes of Rule 11-103(5)(b), the agreement between the CNQ Dealer and the eligible client shall provide that:
- (a) the eligible client is authorized to connect to the CNQ Dealer's order routing system;
 - (b) the eligible client shall enter orders in compliance with CNQ Requirements respecting the entry and trading of orders and other applicable regulatory requirements;
 - (c) specific parameters defining the orders that may be entered by the eligible client are stated, including restriction to specific securities or size of orders;
 - (d) the CNQ Dealer has the right to reject an order for any reason;
 - (e) the CNQ Dealer has the right to change or remove an order in the CNQ System and has the right to cancel any trade made by the eligible client for any reason;
 - (f) the CNQ Dealer has the right to discontinue accepting orders from the eligible client at any time without notice;
 - (g) the CNQ Dealer agrees to train the eligible client in the CNQ Requirements dealing with the entry and trading of orders and other applicable CNQ Requirements; and
 - (h) the CNQ Dealer accepts the responsibility to ensure that revisions and updates to CNQ Requirements relating to the entry and trading of orders are promptly communicated to the eligible client;

provided that, in respect of an agreement with a client in respect of an order execution account, the agreement:

- (i) may be in written form or be in the form of a written or electronic notice acknowledged by the client prior to the entry of the initial order in respect of such order execution account; and
 - (j) may omit provisions that would otherwise be required by clauses (c), (g) and (h) above if the system:
 - (i) enforces CNQ Requirements relating to the entry of orders, or
 - (ii) routes orders that do not comply with CNQ Requirements relating to the entry of orders to a person authorized to enter orders pursuant to Rule 11-103 for review prior to entry to the trading system.
- (8) Training materials regarding CNQ Requirements that the CNQ Dealer proposes to use must be reviewed by CNQ prior to use.
- (9) The CNQ Dealer shall designate a specific person as being responsible for the system.
- (10) Orders executed through the system shall be reviewed for compliance and credit purposes daily by such designated person of the CNQ Dealer.
- (11) The CNQ Dealer shall have procedures in place to ensure that only eligible clients use the system and that such eligible clients can comply with CNQ Requirements and other applicable regulatory requirements.
- (12) The CNQ Dealer shall review the eligibility of eligible clients using the system at least annually.
- (13) The CNQ Dealer shall make available for review by CNQ, as required from time to time, copies of the agreements between the CNQ Dealer and its eligible clients.

11-104 Responsibility of CNQ Dealers

A CNQ Dealer that enters into an agreement with a client to transmit orders in Alternative Market securities received from the client in accordance with Rule 11-103 shall

- (a) be responsible for compliance with CNQ Requirements with respect to the entry and execution of orders transmitted by such clients through the CNQ Dealer; and
- (b) provide CNQ with prior written notification of the individual appointed to be responsible for such compliance.

11-105 Minimum Price Variation

The minimum trading increment for Alternative Market securities shall be as follows:

Price per security	Increment
less than \$0.50	\$0.005
\$0.50 and higher	\$0.01

11-106 Advantage Goes with Securities Sold

- (1) In all trades of Alternative Market securities, all entitlements to receive dividends or any other distribution made or right given to holders of that security shall pass with the security and shall belong to the purchaser, unless otherwise provided by CNQ, the Market Regulator or the parties to the trade by mutual agreement.
- (2) Claims for dividends, rights or any other benefits to be distributed to holders of record of Alternative Market securities on a certain date shall be made in accordance with the procedures established by the Clearing Corporation.
- (3) If subscription rights attaching to securities are not claimed by the persons entitled to those rights at least twenty-four hours before the expiration of the time within which trading in respect of such rights may take place on the CNQ System, a CNQ Dealer holding such rights may, in its direction, sell or exercise all or any part of such rights, and shall account for such sale or exercise to the person or persons entitled to such rights, but in no case shall a CNQ Dealer be liable for any loss arising through failure to sell or exercise any unclaimed rights.

11-107 Foreign Currency Trading

- (1) A report of a cross trade in an Alternative Market security agreed to in a foreign currency that is reported in Canadian dollars shall be converted to Canadian dollars using the mid-market spot rate or 7-day forward exchange rate in effect at the time of the trade, plus or minus 15 basis points, rounded down to the nearest whole cent, and vice versa.
- (2) The CNQ Dealer making the cross shall keep a record of the exchange rate used.

11-108 Entry of Orders for Alternative Market Securities

- (1) Any CNQ Dealer may enter
 - (a) orders and
 - (b) crosses at the price of the bid or offer and at any price between the bid and offerinto the CNQ System for an Alternative Market security.
- (2) Orders (other than special terms orders and crosses) may be entered on a fully-disclosed or partially disclosed basis.
- (3) Orders entered on a partially-disclosed basis must disclose at least one board lot or such greater amount as may be prescribed.

11-109 Trading at the Opening

- (1) Subject to Rule 11-108, the following orders may be entered prior to the opening:
 - (a) limit orders;
 - (b) unpriced orders; and
 - (c) hit and take orders.
- (2) Special Terms Orders may be entered prior to the opening but shall not trade at the opening.
- (3) Orders eligible to trade at the opening are displayed at the COP and all trades at the opening are at the COP.
- (4) Any orders that remain unfilled after the opening remain entered on the CNQ System and have time priority based on the actual time of entry.

11-110 Special Terms Orders

- (1) Special terms orders are queued in a special terms book, separate from the regular book orders.
- (2) Multiple special terms orders at a single limit price are queued by time priority amongst themselves.
- (3) Special fill term orders are eligible for matching with orders from the regular market.
- (4) Special delivery term orders are not eligible for matching with the regular book. Special delivery term orders must trade with orders from the special terms book.

11-111 Trading After the Opening

- (1) A tradeable order for an Alternative Market security shall be allocated among offsetting orders as follows:
 - (i) to offsetting orders on the bid or offer (as the case may be) of the CNQ Dealer that entered the tradeable order individually by time priority, then
 - (ii) to all other offsetting orders individually by time priority.
- (2) The undisclosed portion of a partially-disclosed order does not have time priority until it is disclosed, at which time it ranks behind all other orders in the CNQ System at that price.

POLICY 2

QUALIFICATION FOR LISTING

5. *Listing in US Dollars*

The CNQ System accommodates trading in US dollars.

CNQ Application to Vary Recognition Order - Summary of Comments and CNQ Responses

SUMMARY OF COMMENTS AND CNQ RESPONSES

CNQ received one comment letter, from Market Regulation Services Inc., ("RS") on the proposed rule amendments set out in CNQ Notice 2005-007 dated October 11, 2005. We thank RS for their comments.

From	Comment	CNQ Response
James Twiss, RS	<u>Market Data</u> Non-CNQ Dealers should have access to full market data	Full market data will be available through market data vendors
	<u>Interlisted Securities</u> CNQ-listed securities should not be eligible for the Alternative Market	We agree
	The definitions of "CNQ-listed security" and "Alternative Market security" are tautological and confusing.	We accept the comment and will change the definitions to read: "Alternative Market security" means a security, other than a CNQ-listed security, that is listed on another Canadian stock exchange and approved for trading on CNQ. "CNQ-listed security" means a security that has been listed and approved for trading on CNQ and, for greater certainty, includes a CNQ-listed security that is also listed on another Canadian stock exchange.
	It is not necessary in Rule 11-102 to refer to a "regulatory halt."	We believe that it is preferable to retain the reference to ensure clarity. Although, as pointed out, we would technically have to redesignate the security as eligible following the lifting of the halt, this would be implicit in re-opening trading. We note that we would not necessarily redesignate if the halt were not in the normal course for timely disclosure (e.g. if the security is halted because of disclosure concerns).
	CNQ-listed securities that are interlisted with another market should trade using a symbol assigned in accordance with UMIR Rule 10.15	We do not believe this is an issue for the Alternative Market. In the cases where a CNQ issuer has interlisted with another market, the other market chose not to trade using the existing CNQ symbol.
	<u>Access by Eligible Clients:</u> CNQ rules should state that a client eligible to have access to the TSX is eligible to trade TSX-listed securities on the Alternative Market (mutatis mutandis for TSX V-listed securities). This will ensure uniformity.	While we agree with the recommendation in principle, we believe it would have to be republished for comment. This is not necessary to achieve the objective of the commenter; our proposed rules mirror the current TSX rules. If proposed amendments to the TSX rules are approved, it is our intention to amend our rules accordingly.
	<u>Trading Hours</u> Certain RS rules to accommodate last sale trades on marketplaces should be approved prior to the launch of the Alternative Market	We do not believe this is necessary as will not have a "last sale" session at launch. We understand that RS is currently looking at this issue.

SRO Notices and Disciplinary Proceedings

	<p><u>Advantage Goes With Securities Sold</u></p> <p>The proposed rule 11-106 is not necessary as this is covered off by Rule 6.1(2) of UMIR.</p>	<p>It is our intention to co-ordinate ex-dividend trading with the market on which the security is listed. We believe that the rule should remain, as the UMIR rule does not cover the situation where a security is listed on multiple markets that set different rules for ex-distribution trading.</p>
	<p><u>Foreign Currency Trading:</u></p> <p>Rule 11-107 would conflict with proposed amendments to UMIR Policy 7.5.</p>	<p>We intend to repeal both Rule 11-107 and 4-105 if the proposed amendments are implemented.</p>