

## Chapter 13

# SRO Notices and Disciplinary Proceedings

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### 13.1.1 Notice and Request for Comments - Application for Recognition of New Regco

#### NOTICE AND REQUEST FOR COMMENTS APPLICATION FOR RECOGNITION OF NEW REGCO

##### A. Background

The Investment Dealers Association of Canada (IDA) and Market Regulation Services Inc. (RS) have agreed to combine their regulatory activities into a single organization, known at this time as New Regco. The IDA and RS have applied for New Regco to be recognized as a self-regulatory organization (SRO) in Alberta, British Columbia, Manitoba, Newfoundland and Labrador, New Brunswick, Nova Scotia, Ontario, Saskatchewan and Québec (Recognizing Regulators). Both the IDA and RS are currently recognized as SROs in certain of these jurisdictions.

The Recognizing Regulators are publishing for comment the application for recognition of New Regco (Application) and the following related documents:

1. Draft recognition order – In its Application, New Regco has responded to each of the recognition criteria proposed by the Recognizing Regulators (attached to the draft order as Schedule 1 to Appendix A). Following the comment process and resolution of all outstanding issues, each Recognizing Regulator expects to issue a substantially similar order recognizing New Regco with terms and conditions.
2. Oversight program – The Recognizing Regulators intend to establish an oversight program for New Regco outlined under a Memorandum of Understanding (MOU). The MOU includes a protocol for the review and approval of rules, policies and other similar instruments and the performance of periodic oversight reviews of New Regco.

##### B. Recognition of New Regco

New Regco has responded to each of the following recognition criteria in its application:

1. Governance
2. Public Interest
3. Conflicts of Interest
4. Fees
5. Access
6. Financial Viability
7. Capacity to Perform Regulatory Functions
8. Capacity and Integrity of Systems
9. Rules
10. Disciplinary Matters
11. Information Sharing and Regulatory Cooperation

**C. Comment Process**

We are seeking comments on all aspects of New Regco's Application and related documents. You are asked to provide your comments in writing and to send them on or before March 10, 2008 to:

c/o John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West  
Suite 1903, Box 55  
Toronto, Ontario M5H 3S8  
E-mail: [jstevenson@osc.gov.on.ca](mailto:jstevenson@osc.gov.on.ca)

Please also send your submission to the Autorité des marchés financiers as follows:

M<sup>e</sup> Anne-Marie Beaudoin  
Secrétaire de l'Autorité  
Autorité des marchés financiers  
800, square Victoria, 22<sup>e</sup> étage  
C.P. 246, tour de la Bourse  
Montréal (Québec) H4Z 1G3  
Courrier électronique: [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

The confidentiality of submissions cannot be maintained because securities legislation in certain provinces requires that a summary of written comments received during the comment period be published.

Following the comment period, staff of the Recognizing Regulators will consider the comments received on the Application and the related documents. If staff of the Recognizing Regulators are satisfied that New Regco meets the criteria for recognition, they will recommend that New Regco be recognized as an SRO. Recognition will take the form of a recognition order with terms and conditions generally in the form attached to this notice.

If you have questions, you may contact:

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**SRO Notices and Disciplinary Proceedings**

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Andrew Nicholson  
New Brunswick Securities Commission  
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Nova Scotia Securities Commission  
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December 21, 2007

**VIA EMAIL AND COURIER**

Alberta Securities Commission  
4<sup>th</sup> Floor, Stock Exchange Tower  
300 5<sup>th</sup> Avenue S.W.  
Calgary, AB T2P 3C4

Attn: Ashlyn D'Aoust

British Columbia Securities Commission  
12<sup>th</sup> Floor, Pacific Centre, P.O. Box 10142  
701 West Georgia Street  
Vancouver, BC V7Y 1L2

Attn: Mark Wang and Doug MacKay

Manitoba Securities Commission  
500-400 St. Mary Avenue  
Winnipeg, MB R3C 4K5

Attn: Doug Brown

Newfoundland and Labrador Securities Commission  
2<sup>nd</sup> Floor, West Block  
Confederation Building  
St. John's, NF A1B 4J6

Attn: Winston Morris

New Brunswick Securities Commission  
85 Charlotte Street  
Suite 300  
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Montréal, QC H4Z 1G3

Attn: Elaine Lanouette,  
Normand Bergeron and  
Jacinthe Bouffard

Dear Sirs/Mesdames:

**Re: Application for Recognition of New Regco ("New Regco")**

**Introduction**

This letter sets out the joint application of the Investment Dealers Association of Canada ("**IDA**") and Market Regulation Services Inc. ("**RS**") on behalf of New Regco to the Alberta, British Columbia, Manitoba, Newfoundland and Labrador, New Brunswick, Nova Scotia, and Ontario Securities Commissions, the Saskatchewan Financial Services Commission and the Autorité des marchés financiers, which are collectively the members of the Canadian Securities Administrators ("**CSA**") with jurisdiction, to recognize New Regco as a self-regulatory organization ("**SRO**"). This application responds to the criteria established by the CSA for such recognition, as well as our ongoing discussions with the CSA about the proposed combination of RS and the IDA. New Regco also intends to become a regulation service provider ("**RSP**") pursuant to criteria published in National Instrument 23-101.

A draft consolidated Recognition Order is attached as Appendix A.

### **Background**

Subject to relevant CSA recognition, IDA Board and RS Board (and shareholder) approval, it is proposed to consolidate the regulatory activities of the IDA and RS in New Regco, a new SRO which will acquire/assume the assets, liabilities and responsibilities of the IDA and RS. The objective of combining the IDA and RS is to improve the quality and effectiveness of self-regulation, thereby enhancing investor protection, fair and efficient markets and reducing systemic risks.

Full details of the proposed combination and the reasons it is being proposed are contained in the IDA Information Circular dated November 15, 2007. A copy of the Information Circular is posted on the IDA's website ([www.ida.ca](http://www.ida.ca)). The IDA's members overwhelmingly approved the proposed combination at a special meeting on December 17, 2007.

### **Corporate Governance**

New Regco will be incorporated as a non-share capital corporation under Part II of the *Corporations Act* (Canada). It will be a membership-based organization – each of the IDA and TSX Inc. (“**TSX**”) will effectively give up their ownership rights in RS. The Letters Patent of New Regco (attached to the IDA Information Circular) specify that its objects are to regulate as a self-regulatory organization in respect of persons who are or were formerly (i) Dealer Members of New Regco, (ii) members, users or subscribers of or to marketplaces for which New Regco is a RSP, (iii) the respective representatives of any of the foregoing and (iv) other persons subject to the jurisdiction of New Regco in order to protect investors, foster investor confidence and enhance the fairness, integrity and efficiency of Canadian capital markets. The initial By-law of New Regco is attached to the IDA Information Circular.

New Regco will have two classes of members, each class having equal voting rights and voting together. Dealer Members will be investment dealers registered under applicable Canadian securities legislation that are accepted for membership by the Board. All IDA members will become Dealer Members. Marketplace Members will be each marketplace that is a recognized exchange, quotation and trade reporting system (“**QTRS**”) or registered alternative trading system (“**ATS**”) for the purposes of National Instrument 21-101 which executes agreements for New Regco to be their RSP (a “**Regulated Market**”). An ATS will qualify as both a Dealer Member and Marketplace Member but shall only be entitled to one vote on any vote by Members. (Dealer Members and Marketplace Members are collectively referred to as the “**Members**”).

#### **New Regco Board of Directors**

New Regco's By-law establishes a Board of Directors of 15 directors, comprising the President and CEO of New Regco, 5 individuals representing Dealer Members (each a “**Dealer Director**”), 2 individuals representing Marketplace Members (each a “**Marketplace Director**”) and 7 Independent Directors. The definition in the By-law of “**Independent Director**” is a director who is not (a) an officer (other than the Chair or any Vice-Chair) or an employee of New Regco; (b) a partner, director, officer, employee or person acting in a similar capacity of: (i) a Marketplace Member, or (ii) a Dealer Member, or (iii) an associate or affiliate of a Marketplace Member or a Dealer Member; or (c) an associate of a partner, director, officer, employee or person acting in a similar capacity of a Dealer Member or a Marketplace Member.

The Corporate Governance Committee (the composition of which is described below) will, in accordance with the By-law and considering the overall composition of the Board and its representation of the Canadian markets, recommend as nominees to serve as Directors those individuals that it considers qualified and desirable, recognizing the status of New Regco as an SRO in the various Canadian jurisdictions. It will also appoint qualified individuals to the Hearing Committee (from which disciplinary panels are appointed) on a similar basis.

The Corporate Governance Committee will consider all relevant factors in nominating directors to ensure that the composition of the Board: (a) complies with the requirements of New Regco's By-laws, (b) reflects the regional and other diversity of New Regco's stakeholders, (c) otherwise reflects, in the judgement of the Corporate Governance Committee, the appropriate balance of interests and perspectives of New Regco Members and stakeholders, and (d) addresses, in the judgement of the Corporate Governance Committee, potential conflicts of interest arising from any relationship between a New Regco Member and the New Regco directors. Without limiting the generality of the foregoing, the Corporate Governance Committee will consider, for each potential director:

- the business interests of entities with which the candidate is associated;
- ownership interests in New Regco Members held by entities with which the candidate is associated;
- the extent of overlap and/or integration of the boards and/or management between New Regco Members and entities with which the candidate is associated (for example, consideration of the extent to which there are common managers and/or directors as between the candidate's firm and an ATS); and

- contractual relationships between New Regco Members and entities with which the candidate is associated.

In addition, and in respect of Board nominees and persons appointed to advisory committees and the New Regco Hearing Committee, the Corporate Governance Committee will focus on qualities such as integrity, business judgement and acumen, capital markets expertise and, other relevant business, professional or board expertise, as well as ensuring that nominees are appropriate in recognition of the status of New Regco as a self-regulatory organization in the various Canadian jurisdictions.

The only exception to this selection process is that one of the two Marketplace Directors on the Board will be recommended for nomination by TSX. TSX will remain entitled to recommend for nomination a Marketplace Director so long as it is a Regulated Market and it and Marketplaces associated or affiliated with it maintain, in aggregate, not less than 40% Market Share (as determined under New Regco's By-law). During the term of its Regulation Services Agreement ("**TSX RSA**") and provided it meets the foregoing market share threshold, TSX will also be entitled to representation on the Finance and Audit Committee (described below).

As provided in the By-law, the Corporate Governance Committee will ensure through its nomination process that the Board includes at all times at least (a) one Director, who need not be a Marketplace Director, with particular experience and expertise in respect of public venture equity markets; and (b) one Director, who also need not be a Marketplace Director, who is a partner, director, officer, employee of a non-TSX associated or affiliated Marketplace or an associate or an affiliated entity thereof.

Directors will serve for staggered two year terms (with the terms of the initial Directors to be staggered in two and three year terms). With the exception of the President and CEO, Directors are restricted from serving more than four consecutive terms.

Subject to a transition period, if a non-Independent Director is added to (or removed from) the Board, an Independent Director will also be added (or removed) so that there are always an equal number of non-Independent and Independent Directors on the New Regco Board. The Corporate Governance Committee will recommend and the Board may appoint directors to fill vacancies that arise between annual Members' meetings.

The initial New Regco directors, proposed by the joint Steering Group of the IDA and RS Boards, are described in the IDA Information Circular, as is the manner in which the Chair will be selected.

The Corporate Governance Committee will periodically review the efficacy of New Regco's governance practices.

#### Board Committees

The Board of New Regco will initially appoint from its number three standing committees: the Corporate Governance Committee, the Finance and Audit Committee and the Human Resources and Pension Committee.

The mandate of the Corporate Governance Committee will be to identify and recommend to the Board qualified nominees for election to the Board of Directors, as described above, and to appoint qualified individuals to the Hearing Committee (from which disciplinary panels are appointed). The Corporate Governance Committee will be composed of not less than 5 directors, and may include the Chair of the New Regco Board. All of the members of the Corporate Governance Committee will be Independent Directors unless the Chair of the New Regco Board is a member and is not an Independent Director.

The mandate of the Finance and Audit Committee (to be composed of not less than 5 Directors, including the Chair of the Board and a minimum of 2 Independent Directors) will be to oversee the accounting and financial reporting processes of New Regco, including audits of its financial statements, and to ensure that overall resources are adequate to achieve the organization's various regulatory objectives. As stated above, during the term of the TSX RSA and provided that it meets the 40% market share threshold, TSX will be entitled to representation on the Finance and Audit Committee.

The mandate of the Human Resources and Pension Committee (to be composed of not less than 5 Directors, including the Chair of the Board) will be to ensure that New Regco employs or retains the right people to achieve its corporate objectives by adopting policies and practices and offering a compensation plan that is competitive, motivating and rewarding to the degree that it will attract and inspire a diverse work force that will enhance the professionalism and effectiveness of the organization.

#### District Councils

The existing District Council structure of the IDA will be adopted by New Regco, in order to ensure a mechanism for the engagement and representation of Dealer Members in each of the provinces. District Councils will continue their current roles, such as in granting exemptions from registration and other regulatory approvals and providing recommendations to the New Regco Board concerning new Dealer Member applications. The role of the District Councils will be refined to (i) reflect that they do not currently make rules (although they technically currently have the authority to do so) and (ii) ensure that District Councils continue to play a role in the recommendation to the Corporate Governance Committee of candidates for appointment to the

New Regco Hearing Committee. Resident hearing panel members will be appointed where required (e.g., Quebec) and, elsewhere, efforts will be made to achieve this result.

### Advisory Committees

The existing advisory committees of RS and the IDA are being reviewed to determine which should be continued and whether their mandates should be revised. The National Advisory Committee (the “**NAC**”) will continue to be comprised of the District Council Chairs. The mandate of the NAC is to act as a forum for cooperation and consultation among the District Councils and to provide recommendations to the CEO concerning regulatory policy. The NAC is not a forum for the discussion of individual registration, membership or discipline cases. The IDA’s Compliance and Legal Section and the Financial Administrator Section will continue to be “open” membership committees (with each Dealer and Marketplace Member entitled to have one voting member in each Section), while all other advisory committees (the IDA’s Corporate Finance, Derivatives, Education and Proficiency, Fixed Income, Market Regulation and Retail Sales Committees and RS’ Rules Advisory Committee) will have appointed membership. Appointments to such advisory committees may also include non-Members.

Under the TSX RSA, TSX will be entitled to representation on the Market Regulation Committee. Other marketplaces will also be entitled to representation on that committee. TSX and other marketplaces will also be eligible for representation on other advisory committees, subject to the applicable eligibility and nomination process of New Regco.

Advisory committees will provide advice to staff of New Regco and report to the New Regco CEO. Each will be asked to conduct an annual “self-assessment” and the New Regco Board will conduct a biennial review of the overall advisory committee structure, to ensure that such committees are relevant and providing meaningful advice in a timely and effective manner.

### Member Voting Rights

In respect of matters to be voted upon by Members (including the election of Directors), all Members will vote together and be entitled to one vote per Member. Amendments to New Regco’s Letters Patent or By-laws, creating a new class of members, amalgamation or plan of arrangement of New Regco or disposition of all or substantially all of its assets will require approval by a two-thirds vote of the Members.

### Conflicts of Interest

The governance structure, the rule-making and policy development process, the Hearing Committee process, and the disciplinary panel structure will all reflect New Regco’s efforts to balance its public interest mandate and the views of its members and persons subject to its jurisdiction (“**Regulated Persons**”) as an SRO.

New Regco will have policies and procedures managing potential conflicts of interest of its officers, employees and members of its disciplinary panels, as reflected in a Code of Business Ethics and Conduct (the “**Code**”). New Regco will undertake a review of each division where regulatory decisions are made by staff and will identify specific risk areas associated with potential conflict of interest. The Code will contain policies dealing with potential conflicts of interest in those areas where employees are required to make decisions on behalf of New Regco as part of their regulatory responsibilities. In addition, internal policies and procedures of each division where employees exercise decision-making authority will contain more specific guidelines on how to comply with the Code. Generally, these deal with disclosure of any potential conflicts with Regulated Persons and the allocation of responsibilities among staff that minimizes potential conflicts arising. The Code will be approved by the New Regco Board and acknowledged by officers and employees initially and annually. The policies and procedures of New Regco will require that the Code be reviewed at least annually to ensure that it continues to appropriately meet its objectives.

New Regco will also have a written policy managing potential conflicts of interest of members of its Board, which will be acknowledged by directors initially and on an annual basis. This policy will be reviewed periodically to ensure that it continues to appropriately meet its objectives.

The foregoing structures and processes reflect the current approach of each of the IDA and RS in ensuring that conflicts of interest do not impair their respective regulatory mandates as SROs. The combination of RS and the IDA will result in the creation of an independent SRO and eliminate conflicts (perceived or real) that arise from the current RS ownership structure. However, it is recognized that there may be new potential “conflicts of interest” that could arise as a result of the combination of a member regulation SRO with a marketplace regulator. Balancing the interests of Dealer Members and Marketplace Members is reflected in the governance structure to be adopted, including the composition of the Board that will have representatives of all constituencies. This will provide a forum where competing interests can be identified and dealt with openly and in accordance with best corporate practices as described above. An example of the potential tensions between the two broad regulated groups will be the allocation of resources and costs. As described elsewhere in this application, the overriding principle of cost recovery and the adoption of a fair fee schedule should address these concerns. From the perspective of day to day regulatory operations of New Regco, an integrated and streamlined New Regco staff will work together and be aware of any tensions and be in a position to resolve them fairly. The adoption of the current separate Member and Marketplace regulatory requirements



of the IDA and RS, respectively, acknowledges that there may be separate interests affected in each regulatory area. The separate requirements will permit competing interests to be appropriately managed. Going forward, New Regco will be able to identify potential “conflicts” based on its experience and provide for them by governance changes or rule amendments.

### **Fees**

Upon the creation of New Regco, the existing fee structures of RS (with respect to Marketplace Members) and the IDA (with respect to Dealer Members) will initially be maintained and administered by New Regco, with Members paying fees under the relevant fee structures. ATs will pay fees under both the IDA fee structure for Dealer Members and the RS fee structure for marketplaces, as is presently the case. Both fee models are intended to be neutral and based on cost recovery. New Regco will initiate two significant and related projects to determine the appropriate basis for its:

- (a) Cost allocation – principally a methodology for allocating costs between Dealer and Market regulation; and
- (b) Fee model – the methodology for apportioning fees between Dealer Members for Dealer regulation and between Marketplace Members for Market regulation.

New Regco is committed to initiating the cost allocation project immediately post-merger with a view to adopting an appropriate cost allocation methodology. In addition, it will initiate a project to develop a fee model for New Regco in the first fiscal year of the merger. Development of a new fee model will be a complex exercise and will likely require expert professional advice. Implementation of any such fee model will involve consultation with shareholders and will be subject to CSA review.

As described above, a priority project for New Regco will be to develop under a fair and transparent process an appropriate fee model for the integrated entity based on actual experience gained in performing member and market regulation functions in a combined structure. In this regard, the following principles will be applied:

- New Regco will have a fair, transparent and appropriate process for setting fees to be paid by its Members as approved by its Board of Directors.
- The fees paid by Dealer and Marketplace Members shall be imposed on a cost-recovery basis, to the extent practicable and on a best efforts basis, such that the cost of performing New Regco’s regulation function may be recovered from Members on an equitable basis.
- New Regco will ensure that the cost of providing other Marketplace services is paid for by the Marketplace which has contracted with New Regco for the provisions of such services.

RS has published two proposals related to its fee model between marketplaces for market regulation:

- RS Notice 2006-007 – *Proposed Allocation of Costs – First Group* (November 17, 2006): this notice described the allocation model approved by the RS Board for a series of direct charges to marketplaces to recover operational and capital costs caused by the introduction of new marketplaces; and
- RS Notice 2007-001 – *Proposed UMIR Regulation Fee Model* (January 12, 2007): this notice described a new “activity-based” model approved by the RS Board to recover RS’s costs of providing UMIR regulation services to marketplaces for which RS is the regulation services provider.

The public notice and comment period for each of these proposals has ended, and RS is pursuing approval of these proposals with its recognizing regulators. RS and New Regco intend to implement any proposals for which it receives regulatory approval.

### **Access**

As with the fee model, the existing criteria for access to membership and the provision of regulation services will be preserved in New Regco, as will the process for obtaining such access. New Regco’s By-law provides that any decision with respect to a membership application is subject to review at the request of the applicant (or New Regco staff). Any changes to the criteria or process for obtaining access will be developed and implemented in a fair and transparent manner and subject to New Regco Board approval as well as CSA approval.

Dealers that are currently members of the IDA and Marketplaces for which RS is the regulation services provider will be Members of New Regco and no additional acceptance or approval requirements, other than compliance with the transitional processes described below, will be required to be met by such Dealers and Marketplaces.



Acceptance of Dealer Members for Membership

IDA members will be required to confirm their membership as Dealer Members in New Regco and attornment to its jurisdiction by an expedited membership application process, including a written form of attornment and acknowledgement as to the terms of their membership. Approved persons in respect of Dealer Members will become subject to the jurisdiction of New Regco without further action on their part. Section 3.5 of the By-law (a copy of which is attached as Schedule 3 to the IDA Information Circular) outlines the process for approval of new Dealer Members, which is substantially the same as that set out in the IDA's proposals to amend its application process, which were submitted for CSA approval in March 2007 and as have since been amended.

In view of the fact that the nature of the regulation of Dealer Members and the jurisdiction of New Regco over such Members will not change substantially from that of the IDA, a simplified and expedited application process to New Regco is appropriate.

Acceptance of Marketplace Members for Membership

The basis for membership of Marketplaces in New Regco, described below, reflects that of RS in that it arises by entering into a regulation services agreement ("**RSA**"). It is expected that existing RSAs will be assigned to, or restated in the name of, New Regco without renegotiation and will be a simple and expedited membership process corresponding to that applicable to Dealer Members.

It will likely be necessary for an ATS to enter into new agreements with its Access Persons if those agreements specify that RS is the beneficiary of the subscriber's covenants and there are no provisions in the agreement automatically extending the benefit of the agreement to New Regco. RS will work with the ATSs to identify situations in which new subscriber agreements are required and to develop a process that is as simple and streamlined as possible to obtain such new agreements.

**Eligibility Status**

A Marketplace is eligible to subscribe to be regulated by New Regco as its RSP so long as it is a recognized exchange, a QTRS or an ATS, as each is defined in National Instrument 21-101.

**Contractual Conditions**

To receive regulation services from New Regco, an eligible Marketplace must enter into an RSA with New Regco, which agreement shall include the following terms:

1. Marketplaces will retain New Regco to administer and enforce the market integrity rules adopted from time to time by New Regco. Marketplaces will require their members, users and subscribers, as the case may be ("**marketplace participants**") to comply with New Regco's market integrity rules as a condition of participation.
2. The rules, by-laws and contracts governing the access granted by the Marketplace to its marketplace participants shall provide that the marketplace participant, together with its present and former directors, officers and employees and various other related or affiliated entities, is subject to the jurisdiction of New Regco with respect to the administration and enforcement of New Regco's market integrity rules.
3. The Marketplace must have systems in place that meet New Regco requirements in respect of surveillance and reporting, including New Regco requirements relating to data feeds and the ability to give effect to any direction issued by New Regco with respect to the administration of New Regco's market integrity rules, including provision for trading halts, delays and suspensions.
4. Standard or usual contractual terms including: circumstances for cancellation of the RSA, transitional procedures, covenants, dispute resolution, notice, amendments, etc.
5. A term requiring receipt of approval of the RSA from the relevant securities regulatory authorities.
6. Provisions required by the applicable provisions of Part 7 of National Instrument 23-101 or other requirements established by the applicable securities regulatory authorities.

**Financial Viability**

New Regco will be a non-share capital, membership-based, not-for-profit corporation. As with RS and the IDA (as well as many of the provincial Securities Commissions), its financial model is based on the collection of fees from Members in order to recover the costs incurred in its regulatory activities.

At the outset, New Regco will acquire all of the assets (and assume all of the liabilities) of the IDA and RS, including the balances in the IDA Discretionary Fund and the RS Restricted Fund (which will be transferred to the New Regco Restricted Fund and used solely for prescribed purposes as described in the IDA Information Circular). The costs relating to the combination of RS and the IDA and start-up of New Regco are being borne, proportionately (on a 40%/60% basis), by the RS/IDA Restricted/Discretionary Funds.

**Capacity to Perform Regulation Functions**

**Recognition Orders**

The independence, mandate and obligations of New Regco will be prescribed as terms and conditions of its Recognition Order(s) and Delegation Rulings, based largely upon outstanding Recognition Orders granted to RS and the IDA. As with RS and the IDA, the relevant securities regulators' oversight is expected to include: approval of rules, periodic reporting and triennial oversight examinations, which will enable the relevant securities regulators to ensure that New Regco acts in a manner consistent with the public interest in carrying out its mandate as an SRO and RSP.

**Regulation Services**

New Regco will seek to protect investors, foster investor confidence and enhance the fairness and efficiency of Canadian capital markets through the provision of effective self-regulation of Members, their representatives and other persons subject to its jurisdiction. As a neutral, cost-effective and responsive SRO, New Regco will not discriminate between Members. New Regco will assume all of the regulatory responsibilities and perform all of the regulatory services currently being performed by RS and the IDA.

Under the applicable National Instruments, orders granted under the National Instruments by certain securities commissions, and its RSAs, RS has, and New Regco will have, jurisdiction over the trading conduct of subscribers of an ATS that are not Dealer Members ("Access Persons"). In April 2007, the provincial securities commissions in British Columbia, Alberta, Manitoba, Ontario and Quebec and RS published for comment a proposal to amend the ATS Rules and UMIR to extend RS's jurisdiction to include the trading conduct of individuals and firms who are provided with dealer-sponsored direct access to an exchange or ATS (other than pursuant to order execution accounts) without themselves being members of the exchange or subscribers to the ATS. To the extent that these proposals are implemented, New Regco will assume this jurisdiction as part of its market regulation function.

**Transitional Jurisdiction**

New Regco will assume jurisdiction over the conduct of Dealer Members and over the trading conduct of all members, users and subscribers of Marketplace Members for investigations or enforcement actions in progress at the time New Regco commences its regulatory activities. Dealer Members and Access Persons will be expected to attorn to the jurisdiction of New Regco for all purposes, including their actions while under IDA and/or RS jurisdiction before the combination. The IDA and RS will continue for a period of time (expected to be five years, as discussed below), in part to permit them to carry out disciplinary actions against persons subject to their jurisdiction prior to the combination.

The need to continue the IDA and RS for a period of time after the establishment of New Regco arises from the fact that the jurisdiction of New Regco to carry out enforcement actions (either new actions or continuing ones) against former IDA members and approved persons or against those formerly subject to the jurisdiction of RS cannot be assured except by the agreement or attornment of such members or persons. The concern does not likely arise for practical purposes to the extent that existing IDA members join New Regco (and approved persons continue in the employment of such members or other members subject to New Regco's jurisdiction) and Access Persons attorn to the jurisdiction of New Regco.

In order to avoid jurisdictional challenges in relation to violations occurring prior to the creation of New Regco, the IDA and RS will continue for a period of time. Five years is viewed as a reasonable period for any continuing proceedings to be completed or new proceedings to be initiated. However, the experience has been that occasionally proceedings take longer – particularly those that are important and in the public interest to pursue. Accordingly, the ability to impose a discretionary extension has been included if either of the IDA or RS Boards consider it necessary or desirable.

Subject to any major disciplinary proceedings arising that either the IDA or RS choose to pursue or continue, their respective funding requirements are expected to be insignificant. To the extent that more significant funding is required for such

proceedings, New Regco will provide the necessary funds. As between the IDA and RS, and among the Dealer and Marketplace Members of New Regco, such funding requirements would be taken into account in the fee models that will be developed and be the subject of the cost recovery principles described above.

### **Capacity and Integrity of Systems**

New Regco will perform its Dealer Member regulation function using the systems currently used by the IDA, including those systems currently provided to the IDA by various external service providers. The existing service agreements between the IDA and its service providers will be assigned to New Regco.

New Regco will perform its market regulation function using the systems currently used by RS, including those systems currently provided to RS by TSX. New Regco and TSX intend to enter into a Technology Services Agreement (“TSA”) under which TSX will provide technology services to New Regco corresponding to those regulatory technology services provided to RS. The TSA has been enhanced and now contains added confidentiality and firewall provisions designed to ensure that personnel involved in the marketplace operations of TSX do not have access to confidential or proprietary information relating to New Regco or the other marketplaces for which New Regco is the RSP. Non-regulatory technology systems currently provided to RS by TSX (such as desktop computer support and e-mail) will not be provided to New Regco by TSX, but will be provided by a single supplier for all of New Regco personnel.

#### **Capacity Planning and Management**

New Regco will ensure that systems capacity planning is undertaken on a regular basis and system upgrades and storage and managed carefully. With respect to the market surveillance functions, New Regco will regularly forecast its expected data volumes and if necessary implement system changes. New Regco will also continue the work that RS has begun to provide automated monitoring of multiple marketplaces.

#### **Development and Testing Methodologies**

New Regco will use development and testing cycles that do not interfere with its operating systems. New Regco will regularly review and update its development and testing methodologies, either internally or through its service providers.

#### **System Vulnerability**

The level of exposure to threats and system vulnerability for New Regco will vary based on whether the system is critical or not. Sensitive regulatory data will be kept secure and confidential, within the organization and in relation to service providers. New Regco will ensure that all of its services providers will implement confidentiality and firewall provisions to ensure that service personnel involved do not have access to confidential or proprietary information relating to New Regco or marketplace activities.

#### **Contingency Planning, Disaster Recovery & Business Continuity Plans**

New Regco will have written contingency, business continuity and disaster recovery plans, which will include specific criteria for all critical system applications. All market surveillance systems will have full redundancy with two live sites running in parallel and personnel backup in other New Regco offices. The IDA is in the process of establishing a disaster recovery site in Vancouver managed by Quiettouch Inc., the IDA’s current datacentre and network services provider. It is expected that this site will be operational pre-merger.

RS had developed a comprehensive business continuity plan adapted for an influenza pandemic scenario. The IDA is currently working to develop a similar Influenza Pandemic Plan. This plan will be finalized before the end of this calendar year. New Regco will also adopt the format of the Pandemic Plan currently in use at RS, amalgamating the content from the IDA’s and RS’s plans, as appropriate.

#### **Purpose of Rules**

New Regco will, subject to the terms and conditions of the Recognition Order(s) and the jurisdiction and oversight of the relevant securities regulators, establish rules, regulations or policies: (i) to promote the protection of investors; (ii) to prevent fraudulent and manipulative acts and practices; (iii) to promote just and equitable principles of trade and the duty to act fairly, honestly and in good faith; (iv) to foster cooperation and coordination with persons or companies engaged in regulating, clearing, settling and processing information about, and facilitating transactions in, securities (v) to foster fair, equitable and ethical business practices; (vi) to ensure compliance with securities legislation and SRO rules; and (vii) to provide for appropriate discipline of those whose conduct it regulates.

New Regco’s rules will not unfairly discriminate among those subject to its regulation nor impose any unnecessary burden or constraint on competition or innovation.

Initially, it is the intention of New Regco to adopt and administer the regulatory requirements currently contained in the by-laws, rules, policies and regulations of the IDA and the Universal Market Integrity Rules (UMIR) (collectively, the "New Regco Rules"). Any proposal for amendment to the New Regco Rules would be submitted to the CSA for approval in accordance with the procedures established under a protocol between New Regco, as an SRO and RSP, and the applicable securities regulatory authorities.

**Financial Statements**

New Regco will provide to each jurisdiction recognizing it as an SRO audited annual financial statements within ninety days of its fiscal year end, as is the current practice of the IDA (and of the MFDA and CIPF). New Regco will also present to Members audited annual financial statements and the report of the auditors thereon.

**Discipline Process**

New Regco's rules for the discipline of persons or companies subject to its regulation are based on those of the IDA and RS. The process for disciplining Members and others will be fair, transparent and will provide for due process. Any reviewable decision by New Regco, including any disciplinary or enforcement decision, will be reviewable by the securities regulatory authority having appropriate jurisdiction.

**Quebec Requirements**

New Regco will comply fully with Section 69 of the act respecting the Autorité des marchés financiers.

There will be no change in the way New Regco conducts member regulation activity. New Regco will continue to conduct and supervise member compliance, analysis and enforcement activities by staff in Quebec. Initial IDA ComSet analysis will continue to be conducted in Toronto because one person has to assess all the submissions and decide where the matter should best be referred. All matters relating to individuals and firms in Quebec are and will continue to be referred to Montreal for case assessment.

RS Market Surveillance and Trade Review and Analysis are currently conducted by staff in Toronto. These activities should, for reasons of staff expertise, systems access and real-time response requirements, remain in Toronto. We would propose to establish a Market Surveillance team in Montreal if and when New Regco begins to regulate a market in Quebec. However, decisions relative to those activities that involve people or firms in Quebec will be taken by the Vice-President, Quebec.

Trade desk examinations will initially be carried on by bilingual staff in Toronto. There will be coordination and communications between Toronto and Montreal office staff in order to facilitate decisions concerning trade desk compliance reports being made by the Vice-President, Quebec. In addition, once the merger is completed, New Regco will begin to develop the trade desk examination expertise with the staff in Montreal.

Quebec focused market regulation enforcement files (investigations and prosecutions) will initially be carried on by staff in Toronto. All communication in the course of an investigation with individuals will be conducted in the language of their choice. There will be coordination and communication between Toronto and Montreal office staff in order to facilitate decisions concerning enforcement matters being made by the Vice-President, Quebec. All decisions concerning investigation and prosecution of market enforcement cases will be made by the Vice-President, Quebec and those cases will be presented by Quebec enforcement counsel (internal or external). In addition, once the merger is completed, New Regco will begin to develop market enforcement expertise with the staff in Montreal.

We plan to create a new position in the Montreal office following the merger so that there is an individual with market expertise located in the Quebec office to help coordinate and to manage the transfer of trade desk and market enforcement expertise and to help train Montreal staff.

The members of the hearing panels of New Regco in respect of matters involving Quebec residents will be from Quebec. Currently, RS already calls on hearing panel members who reside in Quebec, some of whom also work with the IDA.

Finally, in matters of registration, the delegation of authority to be sought from the AMF will confirm that section 69 of the Quebec securities legislation is being respected.

**Information Sharing and Regulatory Cooperation**

New Regco will provide all necessary notices and information to each jurisdiction recognizing New Regco as an SRO except as may be otherwise indicated in an applicable recognition order or directions provided by such jurisdictions.

**SRO Notices and Disciplinary Proceedings**

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As specified in the draft Recognition Order(s), New Regco will be willing and able to cooperate, subject to applicable law, in sharing information with the relevant securities regulators and their staff and with other regulatory authorities and SROs responsible for the supervision or regulation of securities firms, markets and financial institutions.

Sincerely,

"Susan Wolburgh Jenah"

"Maureen Jensen"

*Attachments:*

*Appendix A – Draft Recognition Order*

**BY-LAW NO. 1**

**being a General By-law of a new self-regulatory organization to be created as a result of the merger of the Investment Dealers Association of Canada and Market Regulation Services Inc. and provisionally referred to as New Regco**

(hereinafter referred to as the “Corporation”)

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INTERPRETATION**

**Section 1.1 Definitions**

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

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

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

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

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

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

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

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

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

“**Corporation**” means New Regco.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Section 1.2 Interpretation**

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

**ARTICLE 2  
AFFAIRS OF THE CORPORATION**

**Section 2.1 Seal**

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

**Section 2.2 Head Office**

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

**Section 2.3 Financial Year**

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

**Section 2.4 Execution of Instruments**

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

**Section 2.5 Banking Arrangements**

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

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

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

## Section 2.7 Divisions

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

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

## ARTICLE 3 CONDITIONS OF MEMBERSHIP

### Section 3.1 Entitlement

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

### Section 3.2 Dealer Members

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

### Section 3.3 Marketplace Members

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

### Section 3.4 Fees

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

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

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

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

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

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

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



**Section 3.7 Amalgamation of Members**

If two or more Members propose to amalgamate and continue as one Member, the continuing Member shall not be considered to be a new Member or be required to re-apply for membership, except as otherwise determined by the Board and provided that the continuing Member otherwise complies with the By-laws and Rules including the payment of Member fees, if applicable.

**Section 3.8 Dealer Member Resignation**

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

**Section 3.9 Dealer Member Removal**

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

**Section 3.10 Transferability**

Membership is not transferable, unless approved by the Board.

**ARTICLE 4  
MEMBERS' MEETINGS**

**Section 4.1 Annual Meeting**

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

**Section 4.2 Special or General Meetings**

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

**Section 4.3 Quorum**

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

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

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

**Section 4.5 Notice**

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

to vote. Notice of each meeting of Members must remind the Member entitled to vote that the Member has the right to vote by proxy, and must attach a form of proxy.

**Section 4.6 Proxies**

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

**Section 4.7 Votes**

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

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

**Section 4.8 Meetings by Conference Telephone**

- (1) A Member may participate in a meeting of the Members by means of teleconference or by other electronic means that permit all persons participating in the meeting to communicate adequately with each other, and a Member participating in such a meeting by such means is deemed to be present at the meeting.
- (2) At the outset of each meeting referred to in subsection (1) and whenever votes are required, the chair of the meeting shall establish the existence of a quorum and unless a majority of the Members present at such meeting otherwise

require, adjourn the meeting to a predetermined date, time and place whenever not satisfied that the proceedings of the meeting may proceed with adequate security and confidentiality.

**Section 4.9 Chair, Secretary and Scrutineers**

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

**Section 4.10 Persons Entitled to be Present**

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

**Section 4.11 Show of Hands**

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

**Section 4.12 Ballots**

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

**Section 4.13 Adjournment**

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

**ARTICLE 5  
BOARD OF DIRECTORS**

**Section 5.1 Number and Qualifications**

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

**Section 5.2 First Directors**

The applicants for incorporation shall become the first three Directors of the Corporation whose term of office on the Board shall continue until their successors are elected. At the first meeting of Members, the Board then elected may replace the Directors named in the Letters Patent.

**Section 5.3 Director Representation**

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

**Section 5.4 Election and Term**

- (1) With the exception of the Directors elected at the first annual meeting of Members, the term of each Dealer Director, Independent Director and Marketplace Director elected at a meeting of Members shall expire at the dissolution or adjournment of the second annual meeting of Members following the annual meeting of Members at which the Director was elected.
- (2) At the first annual meeting of Members, fourteen Directors shall be elected and the Board shall designate:
  - (a) Three of the positions of Independent Director, two of the positions of Dealer Director and one of the positions of Marketplace Director to be for a term that shall expire at the second annual meeting of Members; and
  - (b) Four of the positions of Independent Director, three of the positions of Dealer Director and one of the positions of Marketplace Director to be for a term that shall expire at the third annual meeting of Members.
- (3) With the exception of the President, a Director may be elected to serve four consecutive terms in office but shall not be eligible to be elected to serve a fifth consecutive term. Those Directors elected at the first annual meeting of Members to serve for an initial one year term shall be limited to three additional consecutive terms in office.

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

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

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

**Section 5.6 Vacancies**

The office of Director shall be automatically vacated:

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

**Section 5.7 Filling Vacancies**

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

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

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

**Section 5.8 Remuneration of Directors**

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

**Section 5.9 Release of Claims**

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

**ARTICLE 6  
POWERS OF DIRECTORS**

**Section 6.1 Administer Affairs**

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

**Section 6.2 Expenditures**

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

**Section 6.3 Borrowing Power**

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

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

**Section 6.4 Conflict of Interest**

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

**ARTICLE 7  
DIRECTORS' MEETINGS**

**Section 7.1 Place of Meeting**

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

**Section 7.2 Calling of Meetings**

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

**Section 7.3 Notice of Meetings**

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



**Section 7.4 Adjourned Meeting**

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

**Section 7.5 Regular Meetings**

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

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

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

**Section 7.7 Voting Rights**

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

**Section 7.8 Meetings by Conference Telephone**

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

**Section 7.9 Quorum**

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

**Section 7.10 Minutes of Meetings**

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

**Section 7.11 Resolution in Lieu of Meeting**

If permitted by law, a resolution in writing, signed by all the Directors entitled to vote on that resolution at a meeting of the Board or committee thereof, is as valid as if it had been passed at a meeting of the Board or a committee thereof.

**ARTICLE 8  
OFFICERS**

**Section 8.1 Appointment**

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

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

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

**Section 8.3 President and Chief Executive Officer**

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

**Section 8.4 Vice-President**

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

**Section 8.5 Secretary**

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

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

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

**Section 8.7 Variation of Powers and Duties**

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

**Section 8.8 Term of Office**

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

**Section 8.9 Terms of Employment and Remuneration**

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

**Section 8.10 Conflict of Interest**

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

**Section 8.11 Agents and Attorneys**

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

**ARTICLE 9  
PROTECTION OF DIRECTORS AND OTHERS**

**Section 9.1      Limitation of Liability**

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

**Section 9.2      Indemnities to Directors and Others**

- (1) Each Indemnified Party shall, from time to time and at all times, be indemnified and saved harmless out of the funds of the Corporation, from and against:
- (a) all costs, charges, fines, damages and penalties and expenses whatsoever that such Indemnified Party sustains or incurs in or about or to settle any action, suit or proceeding which is threatened, brought, commenced or prosecuted against him or her, or in respect of any act, deed, matter or thing whatsoever, made, done or permitted by him or her, in or about the execution of the duties of his or her office or position or in respect of any such liability including those duties executed, whether in an official capacity or not, for or on behalf of or in relation to any body corporate or entity which he or she serves or served at the request of or on behalf of the Corporation; and
  - (b) all other costs, charges and expenses which he or she sustains or incurs in or about or in relation to the affairs thereof, including an amount representing the value of time any such Indemnified Party spent in relation thereto and any income or other taxes or assessments incurred in respect of the indemnification provided for in this By-law,
- until it is conclusively determined that such Indemnified Party shall no longer be entitled to such indemnification, and except for such costs, charges, damages and expenses as are occasioned by his or her own wilful neglect or default.
- (2) The Corporation shall also indemnify such persons in such other circumstances as the Act permits or requires. Nothing in this By-law shall limit the right of any person entitled to indemnity apart from the provisions of this By-law.

**Section 9.3      Insurance**

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

**ARTICLE 10  
DISTRICT COUNCILS**

**Section 10.1     Designation of District**

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

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

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

**Section 10.2 Composition of District Councils**

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

**Section 10.3 Duties and Powers**

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

**Section 10.4 Meetings of District Members**

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

**Section 10.5 Initial District Councils**

On a date determined by the Board, the initial District Council of each District shall be established and shall be comprised of the members of the District Council of such District for the Investment Dealers Association of Canada on the day immediately preceding the date determined by the Board and each member of the District Council shall hold office until the first annual meeting of the Dealer Members of the District, held in accordance with Section 10.4.

**ARTICLE 11  
COMMITTEES AND ADVISORY BODIES**

**Section 11.1 Committees of the Board**

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

**Section 11.2 Corporate Governance Committee**

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

**Section 11.3 Finance and Audit Committee**

The Board shall establish a Finance and Audit Committee composed of at least five Directors of whom a majority shall be Independent Directors. The chair of the Finance and Audit Committee shall be an Independent Director elected by the members

of the Finance and Audit Committee. The Finance and Audit Committee shall review and report to the Board on the annual financial statements of the Corporation and shall perform such other duties as the Board may delegate or direct from time to time.

**Section 11.4 Human Resources and Pension Committee**

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

**Section 11.5 Committee Meetings**

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

**Section 11.6 Advisory Bodies**

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

**Section 11.7 Procedure**

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

**ARTICLE 12  
NOTICES**

**Section 12.1 Method of Giving Notices**

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

**Section 12.2 Undelivered Notices**

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

**Section 12.3 Omissions and Errors**

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

**Section 12.4 Waiver of Notice**

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

**ARTICLE 13  
RULES AND OTHER INSTRUMENTS**

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

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

**Section 13.2 Use of Restricted Fund**

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

**Section 13.3 Other Instruments**

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

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

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

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

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

**Section 13.6 Exchange of Information, Agreements**

- (1) The Corporation may provide assistance, including the collection and sharing of information and other forms of assistance for the purpose of market surveillance, investigations, enforcement litigation, investor protection and compensation and for any other regulatory purpose to any exchange, self-regulatory organization, securities regulator, financial intelligence or law enforcement agency or authority, or investor protection or compensation fund, whether domestic or foreign.

- (2) The Corporation may enter into an agreement with any entity described in subsection (1) to collect and exchange information and to provide for any other forms of mutual assistance for the purpose of market surveillance, investigation, enforcement litigation, investor protection and compensation and for any other regulatory purpose.

**ARTICLE 14  
NO ACTIONS**

**Section 14.1 No Actions Against the Corporation**

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

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

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

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

**Section 15.1 Use of Name**

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

**Section 15.2 Liabilities**

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

**Section 15.3 Claims**

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

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

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

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



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

**Section 17.1 By-laws**

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

**ARTICLE 18  
AUDITORS**

**Section 18.1 Auditors**

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

**ARTICLE 19  
BOOKS AND RECORDS**

**Section 19.1 Books and Records**

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

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

WITNESS the seal of the Corporation.

\_\_\_\_\_  
President

\_\_\_\_\_  
Secretary

IN THE MATTER OF [statute for SRO/SRB recognition]

- AND -

IN THE MATTER OF

NEW REGCO (New Regco)

**RECOGNITION ORDER**

The Investment Dealers Association of Canada (the IDA) has been recognized by the Alberta Securities Commission, British Columbia Securities Commission, Manitoba Securities Commission, Nova Scotia Securities Commission, Ontario Securities Commission, Saskatchewan Financial Services Commission, the Superintendent of Securities for the Province of Newfoundland and Labrador and the Autorité des marchés financiers, and has applied to the New Brunswick Securities Commission for recognition (together, the Recognizing Regulators) as a self-regulatory organization or self-regulating body pursuant to applicable legislation;

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

The IDA and RS have agreed to combine their operations into New Regco;

New Regco will, among other things:

- a. regulate investment dealers, including alternative trading systems (ATSs) [and futures commission merchants] (Dealer Members);
- b. if retained by an ATS pursuant to National Instrument 23-101 *Trading Rules*, regulate the ATS as a Marketplace Member (defined below) and the subscribers of the ATS;
- c. establish and administer its rules, policies and other similar instruments (Rules);
- d. monitor and enforce compliance with its Rules by Dealer Members and ATS subscribers;
- e. provide services to exchanges and quotation and trade reporting systems (QTRSs) (together with ATSs, Marketplace Members) that choose to retain it as a regulation services provider, as that term is defined under National Instrument 21-101 *Marketplace Operation*;
- f. if retained by an exchange or QTRS, administer, monitor and enforce (as appropriate) rules pursuant to a regulation services agreement between New Regco and that exchange or QTRS (RSA); and
- g. conduct certain functions delegated to it by Recognizing Regulators, including registration functions.

New Regco has applied to the [name of Commission] (Commission) and the other Recognizing Regulators for recognition as a self-regulatory [organization/body] pursuant to [legislative provision for SRO/SRB recognition] of the [insert statute] (the Act) [For Ontario and Manitoba - and the [[legislative provision for SRO/SRB recognition] of the [insert statute] (CFA);

Based on the application filed on behalf of New Regco with the Recognizing Regulators and subject to the representations and undertakings made by New Regco, the Commission is satisfied that recognizing New Regco will not be prejudicial to the public interest;

The Commission recognizes New Regco as a self-regulatory [organization/body] pursuant to [legislative provision for SRO/SRB recognition] of the Act [and the CFA] on the terms and conditions set out in the appendix to this recognition order and the applicable provisions of the Memorandum of Understanding between the Recognizing Regulators dated [date], as amended from time to time (MOU).

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

**1. Recognition Criteria**

New Regco must continue to meet the criteria attached at Schedule 1.

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

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

**3. Governance**

- a. New Regco must:
  - (i) ensure that at least 50% of its board of directors (Board), other than the President of New Regco, are independent directors as defined in By-law No. 1;
  - (ii) ensure that one of the directors represents an exchange or ATS that is not affiliated with a marketplace
    - (A) that retains New Regco, and

- (B) has at least a 40% Market Share as defined in By-law No. 1 (Market Share); and
- (iii) review the corporate governance structure, including the composition of the Board,
  - (A) within two years after the date of recognition and periodically thereafter, or
  - (B) at the request of the Commission,

to ensure that there is a proper balance between, and effective representation of, the public interest and the interests of marketplaces, dealers and other entities desiring access to the services provided by New Regco.

- b. New Regco must report to Commission staff in writing the results of the corporate governance review referred to in subparagraph (a)(iii) upon completion.
- c. The Code of Business Ethics and Conduct and the written policy about managing potential conflicts of interests of members of New Regco's Board must be filed with the Recognizing Regulators within one year after the date of this Recognition Order.

#### **4. Fees**

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

#### **5. Due Process**

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

#### **6. Financial Viability**

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

#### **7. Integration of Functions**

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

#### **8. Performance of Regulatory Functions**

- a. New Regco must set Rules governing its members and others subject to its jurisdiction and will administer those Rules and Market Rules.
- b. New Regco must administer, monitor and enforce compliance with the Rules and monitor compliance with securities laws by Dealer Members, including ATSSs, and ATS subscribers. In addition, New Regco will provide notice to the Commission of any violations of securities legislation of which it becomes aware.
- c. If retained by an exchange or QTRS, New Regco must administer, monitor and enforce (as appropriate) rules pursuant to an RSA.
- d. New Regco must, subject to applicable legislation, collect, use and disclose personal information only to the extent reasonably necessary to carry out its regulatory activities and mandate.

- e. New Regco must ensure that it is accessible for contact by the public for purposes relating to the performance of its functions as a self-regulatory organization/body.
- f. New Regco must publish concurrently in English and French each document issued to the public at large or generally to any class of members and must provide the document to Commission staff immediately upon publication.
- g. New Regco must adopt policies and procedures designed to ensure that confidential information about its operations or those of any Dealer Member, Marketplace Member or marketplace participant is maintained in confidence and not shared inappropriately with other persons, and must use all reasonable efforts to comply with these policies and procedures.

**9. Use of Fines and Settlements**

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

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

**10. Disciplinary Matters**

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

**11. Capacity and Integrity of Systems**

- a. New Regco must
  - (i) ensure that each of New Regco's critical systems, including its technology systems, has
    - (A) appropriate internal controls to ensure integrity and security of information; and
    - (B) has reasonable and sufficient capacity, and backup to enable New Regco to properly carry on its business.
  - (ii) have controls to manage the risks associated with its operations, including an annual review of its contingency and business continuity plans.

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

**12. Ongoing Reporting Requirements**

- a. New Regco must provide the Commission with all information required in Schedule 2 of this recognition order.
- b. New Regco must provide Commission staff within 30 days of the commencement of each fiscal year with a copy of its financial budget for that year, together with the underlying assumptions, that has been approved by its Board.
- c. New Regco must file annual audited financial statements with Commission staff, accompanied by the report of an independent auditor, within 90 days after the end of each fiscal year.
- d. New Regco must file with Commission staff quarterly financial statements for each of the first three financial quarters within 60 days after the end of each financial quarter.
- e. New Regco must file its annual report with Commission staff upon completion.
- f. New Regco must annually self-assess New Regco's performance of its regulatory responsibilities and report thereon to the Board and the Commission staff, together with any recommendations for improvements. The annual self-assessment must contain information as specified by Commission staff from time to time and include the following information:
  - (i) an assessment of how New Regco is meeting its regulatory mandate, including an assessment against the recognition criteria and the terms and conditions of the recognition order;
  - (ii) an assessment against its strategic plan;

- (iii) a description of trends seen as a result of compliance reviews conducted and complaints received and New Regco's plan to deal with any issues;
- (iv) whether New Regco is meeting its benchmarks and if not, why not; and
- (v) a description and update on significant projects undertaken by New Regco.

New Regco must file the self-assessment with the Commission within 90 days of its fiscal year-end.

- g. New Regco must give the Commission staff notice as soon as practicable of new directors.
- h. New Regco must provide to the Commission, in addition to the information specifically required in this Recognition Order and the MOU, any information the Commission may reasonably require from time to time.



**SCHEDULE 1**

**CRITERIA FOR RECOGNITION  
IDA/RS MERGED ENTITY**

**1. Governance**

a. The governance structure and arrangements must ensure:

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

**2. Public Interest**

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

**3. Conflicts of interest**

New Regco must effectively identify and manage conflicts of interest.

**4. Fees**

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

**5. Access**

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

**6. Financial Viability**

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

**7. Capacity to Perform Regulatory Functions**

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

**8. Capacity and Integrity of Systems**

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

**9. Rules**

a. New Regco must establish and maintain Rules that:

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

**10. Disciplinary Matters**

The process for discipline must be fair and transparent.

**11. Information Sharing and Regulatory Cooperation**

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

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

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

**12. Other Criteria – Québec**

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

**SCHEDULE 2**

**REPORTING REQUIREMENTS**

[This schedule will contain reporting requirements.]

**Memorandum of Understanding Regarding Oversight of [New Regco] Among:**

**British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Financial Services Commission (Securities Division)  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
Newfoundland and Labrador, Securities Division, Department of Government Services and Lands  
Nova Scotia Securities Commission  
New Brunswick Securities Commission**

(each a “Recognizing Regulator”)

The parties agree as follows:

**1. Underlying Principles**

*a. Recognition*

[New Regco] (“New Regco”) is recognized as a self-regulatory organization under applicable legislation by each of the Recognizing Regulators and is a regulation services provider pursuant to National Instrument 23-101 *Trading Rules*.

*b. Oversight Program*

To ensure effective oversight of New Regco’s performance of its self-regulatory activities and regulation services, the parties to this Memorandum of Understanding (“MOU”) have developed an oversight program (the “Oversight Program”) which includes:

- i. reviewing information filed by New Regco;
- ii. reviewing and approving new and amended rules, policies and other similar instruments (“Rules”) and by-laws of New Regco; and
- iii. performing periodic reviews of New Regco’s self-regulatory activities and regulation services.

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

**2. Definitions**

“Approved Person” has the meaning attributed to that term in New Regco’s Rules, as amended from time to time.

“Member” has the meaning attributed to that term in New Regco’s By-law No. 1, as amended from time to time.

“Principal Regulator” means the Recognizing Regulator that is designated as such from time to time.<sup>1</sup>

**3. General Provisions**

*a. Oversight Committee*

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

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

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

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<sup>1</sup> The OSC is the principal regulator for RS and the IDA.

*b. Staff Contact*

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

*c. Status Meetings*

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

**4. Reporting**

- a. Any comments of the staff of the Recognizing Regulators on any report filed by New Regco will be sent to the Principal Regulator. The Principal Regulator will request that New Regco respond to comments raised by the Recognizing Regulators and forward any response to the Recognizing Regulators.

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

The Recognizing Regulators have developed a Joint Rule Review Protocol (the "Protocol") for coordinating the review and approval of New Regco by-laws and Rules. The Protocol is attached as Appendix "A" and may be amended from time to time.

**6. Oversight Reviews**

*a. Coordination of Oversight Reviews*

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

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

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

- i. Each Responsible Regulator will provide to all Reviewing Regulators a draft report on the results of the review of its New Regco office. The Reviewing Regulators will agree in advance on the date on which the draft reports should be completed.

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

c. *Interim Reviews*

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

**7. Effective Date**

This MOU comes into effect on ■, 2008 in Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario and Saskatchewan. In Quebec, this MOU comes into effect on the date the AMF executes it.

APPENDIX A

JOINT RULE REVIEW PROTOCOL FOR NEW REGCO

1. **Scope and Purpose**

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

2. **Classification of Rules**

a. *Classification of Rules by New Regco*

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

b. *Criteria for Classification of Rules*

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

c. *Disagreements Regarding Classification*

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

3. **Required Materials**

- a. New Regco will file the information required under this section concurrently in both English and French, accompanied with a translation certificate, with the applicable Recognizing Regulators.



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

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

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

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

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

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

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

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

summary of public comments and New Regco's response to the public comments, a draft comment letter that incorporates the comments raised by staff of the Recognizing Regulators;

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

## **7. Immediate Implementation**

- a. If New Regco reasonably believes that there is an urgent need to implement a proposed Rule because of a substantial risk of material harm to investors, Members, marketplace participants or the Canadian Investor

Protection Fund, New Regco may make the proposed Rule effective immediately upon approval by New Regco's Board, provided that:

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

**8. Effective Date of Rules**

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

**9. Revisions and Republication**

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

previous request for comments, together with an explanation of the revisions to the proposed Rule and the supporting rationale for the revisions.

**10. Publication of Notice of Approval**

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

**11. Review of Protocol**

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

**12. Waiving or Varying Protocol**

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