TEXT OF POLICIES UNDER THE UNIVERSAL MARKET INTEGRITY RULES

POLICY 2.1 – JUST AND EQUITABLE PRINCIPLES

Part 1 – Examples of Unacceptable Activity

Rule 2.1 provides that a Participant shall transact business openly and fairly and in accordance with just and equitable principles of trade when trading on a marketplace or trading or otherwise dealing in securities that are eligible to be traded on a marketplace. The Rule also provides that an Access Person shall transact business openly and fairly. As such, the Rule operates as a general anti-avoidance provision.

Participants and Access Persons who intentionally organize their business and affairs with the intent or for the purpose of avoiding the application of a Requirement may be considered to have engaged in behaviour that is contrary to the just and equitable principles of trade. For example, the Market Regulator considers that a person who is under an obligation to enter orders on a marketplace who "uses" another person to make a trade off of a marketplace (in circumstances where an "off-market exemption" is not available) to be violating just and equitable principles of trade.

Certain patterns of activity that can be undertaken that affect the marketplace but do not reach the level of manipulative and deceptive trading practices are nonetheless unavailable to Participant and Access Persons. For example, Rule 4.1 dealing with frontrunning is specifically tied to misuse of information when a Participant knows a client order will be entered. Somewhere between the Participant who acts on certain knowledge of a client order and the Participant who acts despite a single, uncertain expression of interest are the Participants that repeatedly take advantage of expressions of interest in particular securities. Such Participants are not conducting business openly and fairly and in accordance with just and equitable principles of trade. The "just and equitable principles" clause and the requirement transact business openly and fairly prevent such activity.

Without limiting the generality of the Rule, the following are examples of activities by a Participant that would be considered to be in violation of just and equitable principles of trade:

(a) without the specific consent of the client, entering client and principal orders in such a manner as to attempt to obtain execution of a principal order in priority to the client order (See Part 2 of Policy 5.3 – Client Priority for examples of the prohibition on "intentional trading ahead".)

(b) without the specific consent of the client, to vary the instructions of the client to

indicate that securities held by the client are to participate in a dividend reinvestment plan such that the Participant would receive securities of the issuer and would account to the client for the dividend in cash;

(c) without the specific consent of the lender of securities, to vary the arrangements in respect of securities borrowed by the Participant to indicate that the borrowed securities are to participate in a dividend reinvestment plan such that the Participant would receive securities of the issuer and would account to the lender for the dividend in cash; and

(d) when trading a combined board lot/odd lot order for a listed security on an Exchange, entering the odd lot portion of the order prior to executing the board lot portion of the order as such order entry exposes the Registered Trader on the TSE or the Odd Lot Dealer on the CDNX to automatic odd lot trades at unreasonable prices.

Part 2 – Moving Markets to Execute a Trade

A Participant or Access Person intending to execute a trade or a cross that will cause, during the course of a single trading day, a change in the price that is above the prevailing offer or below the prevailing bid by an amount greater than $1 in a security selling below $20, or greater than $2 in a security selling at or above $20, shall obtain the prior approval of the Market Regulator. The Participant or Access Person shall move the market to the price of the cross or the final trade of a one-sided order (the "clean-up price") in an orderly manner over a time period as directed by the Market Regulator. The length of time required to move the market will depend on the circumstances and the particular security involved. As a guideline, 10 to 15 minutes will be required for each movement of $1 in price. Particular securities may require a longer period of time.

If the Market Regulator is given notice of a proposed trade or cross under this Policy shortly before the close of trading on marketplaces or the principal market for the security, the Market Regulator may disallow the trade if, in the opinion of the Market Regulator, there is not sufficient time to move the market to the clean-up price in an orderly manner before the close.

POLICY 2.2 – MANIPULATIVE AND DECEPTIVE METHOD OF TRADING

Part 1 – Artificial Pricing

For the purposes of Rule 2.2, a price will be considered artificial if it is not justified by real demand or supply in a stock. Whether or not a particular price or quotation is "artificial" depends on the particular circumstances. A price may be artificial if it is higher or lower than the previous price and the market immediately returns to that previous price following the trade. A quotation may be artificial if it raises or lowers the bid or offering, is the only bid

or offering at that price and is removed without trading. However, these factors are only indications and are not on their own evidence that a given price or quotation is artificial. Consideration will also be given to whether any Participant, Access Person or account involved in the order has any motivation to establish an artificial price.

Some of the relevant considerations in determining whether an order is proper are:

(a) the prices of the immediately preceding and succeeding trades;

(b) the change in price or quotation that would result from carrying the instruction or entering the order;

(c) the time the order is entered, or any instructions relevant to the time of executing the order;

(d) the effect that such a change would have on other Participants or Access Persons who are or who have been interested in the stock; and

(e) whether or not the person entering the order is associated with a promotional group or other group with an interest in effecting an artificial price, either for banking and margin purposes or for purposes of effecting a distribution of the securities of the issuer.

Where the order is coming from a non-principal account, the responsibility for deciding whether or not an order has been entered with the bona fide intention of buying and selling shares or to establish an artificial price or quotation lies with the Participant, and specifically with the person(s) responsible for handling the order. Each case must be judged on its own merits. Orders which are intended to or which affect an artificial price or quotation are more likely to appear at the end of a month, quarter or year or on the date of the expiry of options on the listed security.

POLICY 3.1 – RESTRICTIONS ON SHORT SELLING

Part 1 – Entry of Short Sales Prior to the Opening

Prior to the opening of a marketplace on a trading day, a short sale may not be entered on that marketplace as a market order and must be entered as a limit order and have a limit price at or above the last sale price of that security as indicated in a consolidated market display (or at or above the previous day's close reduced by the amount of a dividend or distribution if the security will commence ex-trading on the opening).

Part 2 – Short Sale Price When Trading Ex-Distribution

When reducing the price of a previous trade by the amount of a distribution, it is possible that the price of the security will be between the trading increments. (For example, a stock at $10 with a dividend of $0.125 would have an ex-dividend price of $9.875. A short sale order could only be entered at $9.87 or $9.88.) Where such a situation occurs, the price of the short sale order should be set no lower than the next highest price. (In the example, the minimum price for the short sale would be $9.88, being the next highest price at which an order may be entered to the ex-dividend price of $9.875).

In the case of a distribution of securities (other than a stock split) the value of the distribution is not determined until the security that is distributed has traded. (For example, if shareholders of ABC Co. receive shares of XYZ Co. in a distribution, an initial short sale of ABC on an ex-distribution basis may not be made at a price below the previous trade until XYZ Co. has traded and a value determined).

Once a security has traded on an ex-distribution basis, the regular short sale rule applies and the relevant price is the previous trade.

POLICY 4.1 - FRONTRUNNING

Part 1 – Examples of Frontrunning

Rule 4.1 provides that no Participant shall trade in equities or derivatives to take advantage of information concerning a client order that has not been entered on a market place that reasonably can be expected to change the prices of the equities or the related options or futures contracts. Without limiting the generality of the Rule, the following are examples of transactions covered by the prohibition:

(a) a transaction in an option, including an option where the underlying interest is an index, when the Participant has knowledge of the unentered client order for the underlying securities;

(b) a transaction in a future where the underlying interest is an index when the Participant has knowledge of the unentered client order that is a program trade or index option transaction; and

(c) a transaction in an index option when the Participant has knowledge of the unentered client order that is a program trade or an index futures transaction.

Rule 10.4 extends the prohibition to cover orders entered by a related entity of the Participant or a director, officer, partner or employee of the Participant or a related entity of the Participant.

Part 2 – Specific Knowledge Required

In order to constitute frontrunning contrary to Rule 4.1, the person must have specific knowledge concerning the client order that, on entry, could reasonably be expected to affect the market price of a security. A person with knowledge of such a client order must insure that the client order has been entered on a marketplace before that person can:

- enter a principal order or non-client order for the security or any related security;

- solicit an order for the security or any related security; or

- inform any other person about the client order, other than in the necessary of course of business.

Trading based on non-specific pieces of market information, including rumours, does not constitute frontrunning.

POLICY 5.1 – BEST EXECUTION OF CLIENT ORDERS

"Best execution" refers to a reasonable period of time during which the order is handled, not merely the precise moment in time that it is executed. The price of the principal transaction must also be justified by the condition of the market. Participants should consider such factors as:

- prices and volumes of the last sale and previous trades;

- direction of the market for the security;

- posted size on the bid and offer;

- the size of the spread; and

- liquidity of the security.

For example, if the market is $10 bid and $10.50 asked and a client wants to sell 1000 shares, it would be inappropriate for a Participant to do a principal trade at $10.05 if the security has been trading heavily at $10.50 and there is strong bidding for the security at $10 compared to the number of securities being offered at $10.50. The condition of the market suggests that the client should be able to sell at a better price than $10.05. Accordingly, the Participant as agent for the client should post an offer at $10.45 or even $10.50, depending on the circumstances. The desire of the client to obtain a fill quickly is always a consideration.

Of course, if a client expressly consents to a principal trade a fully informed basis, following

the client's instructions will be reasonable.

POLICY 5.2 – BEST PRICE OBLIGATION

Part 1 – Qualification of Obligation

The "best price obligation" imposed by Rule 5.2 is subject to the qualification that a Participant make "reasonable efforts" to ensure that a client order receives the best price. In determining whether a Participant has made "reasonable efforts", the Market Regulator will consider:

- the information available to the Participant from the information processor or information vendor;
- the transactions costs and other costs that would be associated with executing the trade on a marketplace;
- whether the Participant is a member, user or subscriber of the marketplace with the best price;
- whether market outside of Canada have been considered (particularly if the principal market for the security is outside of Canada)
- any specific client instructions regarding the timeliness of the execution of the order.

Part 2 – Trade-Through of Marketplaces

Subject to the qualification of the "best price obligation" as set out in Part 1, Participants may not intentionally trade through a better bid or offer on a marketplace by making a trade at an inferior price (either one-sided or a cross) on a stock exchange or other organized market. This Policy applies even if the client consents to the trade on the other stock exchange or other organized market at the inferior price. Participants may make the trade on that other exchange or organized market if the better bids or offers, as the case may be, on marketplaces are filled first, or coincidentally with the trade on the other stock exchange or organized market. The time of order entry is the time that is relevant for determining whether there is a better price on a marketplace.

This Policy applies to "active orders". An "active order" is an order that may cause a trade-through by executing against an existing bid or offer on another stock exchange or organized market at a price that is inferior to the bid or ask price on a marketplace at the time. This Policy applies to trades for Canadian accounts and Participants' principal (inventory) accounts. The Policy also applies to Participants' principal trades on foreign

over-the-counter markets made pursuant to the outside-of-Canada exemption in clause (e) of Rule 6.4. Trades for foreign accounts are not subject to this Policy because they are exempt from Rule 6.4 pursuant to the “outside-of-Canada” exemption set out in clause (e) of Rule 6.4. For example, an order to sell from a non-Canadian account on the New York Stock Exchange at a price below the bid price on a marketplace may be executed by the Participant.

Part 3 – Foreign Currency Translation

If a trade is to be executed on a foreign market, the Participant shall determine whether there is in fact a better price on a marketplace. The foreign trade price shall be converted to Canadian dollars using the mid-market spot rate or 7-day forward exchange rate in effect at the time of the trade, plus or minus 15 basis points. A better price on a marketplace must be “taken out” if there is more than a marginal difference between the price on the marketplace and the price on the other stock exchange or organized market. The Market Regulator regards a difference of one-half of a tick or less as "marginal" because the difference would be attributable to currency conversion.

POLICY 5.3 – CLIENT PRIORITY

Part 1 – Background

Rule 5.3 restricts Participants and their employees from trading in the same securities as their clients in order to minimize the conflict of interest that occurs when a firm or a pro trader competes with the firm’s clients for executions.

The Rule governs two types of activities. The first is trading ahead of a client order, which is taking out a bid or offering that the client could have obtained had the client order been entered first. By trading ahead, the pro order obtains a better price at the expense of the client order.

The second activity governed by the rule is trading along with a client, or competing for fills at the same price.

The application of the rule can be quite complex given the diversity of professional trading operations in many firms, which can include such activities as block facilitation, market making, derivative and arbitrage trading. In addition, firms may withhold particular client orders in order to obtain for the client a better execution than the client would have received if the order had been entered directly on a marketplace. Each firm must analyze its own operations, identify risk areas and adopt compliance procedures tailored to its particular situation.

Part 2 – Broker’s Legal Obligations

Agency law imposes certain obligations on those who act on behalf of others. Among those obligations is a prohibition on an agent appropriating for itself an opportunity that could go to the principal (client) unless the principal specifically consents.

At common law, the client can consent to the Participant trading ahead or alongside. Such consent must be specific to an order, and not contained in a general consent in a client account agreement. For example, an institutional client may consent to splitting fills with the Participant or may consent to the Participant trading ahead in order to move the market to the agreed-upon price for a block trade (e.g. permitting the Participant as pro to move the market down to the price at which it will buy a block from the client).

Participants have overriding agency responsibilities to their clients and cannot use technical compliance with the rule to establish fulfilment of their obligations if they have not otherwise acted reasonably and diligently to obtain best execution of their client orders. Firms should obtain legal advice that their own order handling procedures comply with their obligations to their clients.

Part 2 – Prohibition on Intentional Trading Ahead

Rule 5.3 provides that a Participant must give priority of the execution to client orders, subject to certain exceptions necessary to ensure overall efficiency of order handling. The Rule contains an exception for allocations in a trading system provided that the firm enters client orders immediately and does not interfere with the system allocation in any way. The rationale is that a pro who has committed to the marketplace ahead of a client is not taking a trading opportunity from the client as the client's trading opportunity does not arise until he or she gives an order.

The Rule also contains an exception where a client order has been withheld in a bona fide attempt to get better execution for the client, provided that any pro who is trading ahead of the client order does not have knowledge of that order and that the firm has reasonable procedures in place to ensure that information concerning client orders is not used improperly within the firm. These procedures will vary from firm to firm and no one procedure will work for all firms.

A Participant cannot intentionally obtain execution of a pro order ahead of a client order without the specific consent of the client, unless the trade is at a better price than the client's limit. A Participant can never intentionally trade ahead of a client market or tradeable limit order without the specific consent of the client. Such consent must be specific to a particular order, and details of the agreement with the client must be noted on the order ticket.

Examples of "intentional trades" include, but are not limited to:

- withholding a client order from entry on a marketplace (or removing an order

already entered on a marketplace) to permit the entry of a competing pro order ahead of the client order;

- entering a client order in a relatively illiquid market and entering a pro order in a more liquid marketplace where the pro order is likely to obtain faster execution; and

- adding terms to an order (other than on the instructions of the client) so that the order ranks behind pro orders in the regular market at that price.

Part 3 – No Knowledge of Client Order

Rule 5.3 also contains two exceptions that requires that the director, officer, partner, employee or agent of the Participant who enters the principal order or the non-client order be unaware that the client order has not been entered. The two exceptions are:

- if the client specifically grants discretion to the Participant with respect to the entry of the order; and

- if the Participant withholds the client order from entry in a bona fide attempt to get better execution for the client.

In these circumstances, the Participant must have reasonable procedures in place to ensure that information concerning client orders is not used improperly within the firm. These procedures will vary from firm to firm and no one procedure will work for all firms. If a firm does not have reasonable procedures in place, it cannot rely on the exceptions in subsections (3), (4) and (4) of Rule 5.3. Reference should be made to Policy 7.1 – Policy on Trading Supervision Obligations.

The procedures must address the handling of client orders and must be followed up by after-the-fact monitoring. At a minimum, these procedures, which must be documented, must include:

- Education of all traders in their responsibilities in handling client orders. In particular, traders must be informed that intentionally trading ahead of a client order is prohibited and will result in disciplinary action against the trader.

- Identification of particular areas within the firm where there is a risk of non-compliance. For many firms this would include:

    - the point at which the order is taken (e.g. a branch or institutional desk);

    - the points at which orders are managed (e.g. an OMS trader or retail

special handling desk); and

- areas of the firm that are in proximity to areas where orders are handled.

- After-the-fact reviews of trading must also be conducted. Client complaints must be documented and followed-up. On a monthly basis (at a minimum) the firm must compare execution of a reasonable sample of non-client orders with contemporaneous client orders in the same security on the same side of the market. A Participant will be expected to investigate instances where it appears that a pro may have traded with knowledge of a client order prior to its entry on a marketplace.

Periodically the firm must review its procedures to ensure that they are appropriate to ensure that the firm is meeting both the requirements of Rule 5.3 and its agency obligation to clients.

Part 4 –Client Consent

A Participant does not have to provide priority to a client order if the client specifically consents to the Participant trading along side or ahead of the client. Any request must be specific to that order. A client cannot give a blanket consent to permit the Participant to trade along side or ahead of any future orders the client may give the Participant.

A Participant must keep a record of the client's consent to withhold orders for seven years from the date of the instruction and, for the first two years, the consent must be kept in a readily accessible location.

If the client has given the Participant an order that is to be executed at various times during a trading day (e.g. an "over-the-day" order) or at various prices (e.g. at various prices in order to approximate a volume-weighted average price), the client is deemed to have consented to the entry of principal and non-client orders that may trade ahead of the balance of the client order. However, if the unentered portion of the client order would reasonably be expected to affect the market price of the security, the Participant may be precluded from entering principal or non-client orders as a result of the application of the frontrunning rule.

POLICY 6.3 – EXPOSURE OF CLIENT ORDERS

Part 1 – Reviewing Small Orders for Market Impact

Rule 6.3 requires a Participant to immediately enter client orders for the purchase or sale of 50 standard trading units or less on a marketplace. This requirement is subject to certain

exceptions. The Participant may withhold the order based on a determination that market conditions were such that immediate entry of the order would not be in the best interests of the client. If the order is withhold the Participant must guarantee that the client receives a price at least as good as the price the client would have received had the client order been executed on receipt by the Participant. If the order is executed against a principal order or non-client order the client must receive a better price.

Part 2 – Confirmation of Order Terms

Pursuant to Rule 6.3, a Participant may withhold entry of the order and return the order to its source for confirmation of its terms. For example, a Participant who receives an order to sell a security at $3 in a stock trading at $20 may return the order to the branch, as it is likely that either the price or the stock symbol is wrong.

Part 3 –Client Request to Withhold Order

A Participant does not have to immediately enter a client order on a marketplace if the client has requested that the order be withheld (for example, the client does not want the order executed in the open market but wishes to do a tax-related trade with their spouse). Any request must be specific to that order. A client cannot give a blanket request to withhold any future orders the client may give the Participant. Furthermore, the Participant may not solicit a request to withhold the order. A Participant must keep a record of the client's request to withhold orders for seven years from the date of the instruction and, for the first two years, the request must be kept in a readily accessible location.

POLICY 6.4 – TRADES TO BE ON A MARKETPLACE

Part 1 – Trades Outside of Marketplace Hours

In accordance with section 6.1 of National Instrument 23-101, each marketplace shall set requirements in respect of the hours of trading to be observed by marketplace participants. Occasions may arise where Participants wish to make an agreement to trade as principal with a Canadian client, or to arrange a trade between a Canadian client and a non-Canadian client, outside of the trading hours of marketplaces.

Rule 6.4 states that all trades must be executed on a marketplace unless otherwise exempted from this requirement. This Policy clarifies the procedure to be followed when a Participant wishes to make such a transaction. Participants are reminded of the exemption in clause (d) of Rule 6.4 that permits a trade on another exchange or organized regulated market, provided that the exchange or market publicly disseminates details of trades in that market. Participants are also reminded of the exemption in clause (e) of Rule 6.4 that permits them to trade as principal with non-Canadian accounts off of a marketplace provided that any unwinding trade with a Canadian account is made in accordance with Rule 6.4.

Participants may make agreements to trade in listed or quoted securities with Canadian accounts as principal or as agent outside of the trading hours of marketplaces, however, such agreements must be made conditional on execution of the trade on a marketplace or on a stock exchange or organized market where the security is listed or quoted. There is no trade until such time as there is an execution on a marketplace, stock exchange or organized market. The trade on a marketplace is to be done at or immediately following the opening of the marketplace on which the order is entered. Participants may cross the trade at the agreed-upon price provided that the normal Requirements on order displacement are followed. If the Participant determines that the condition of recording the agreement to trade on a marketplace cannot be met, the agreement to trade shall be cancelled. Use of an error account to preserve the transaction is prohibited.

Part 2 – Application to Foreign Affiliates and Others

The Market Regulator considers that any use by a Participant of another person that is not subject to Rule 6.4 in order to make a trade off of a marketplace (other than as permitted by one of the exemptions) to be a violation of the just and equitable principles of trade.

Although certain related entities of Participants, including their foreign affiliates, are not directly subject to Requirements, Rule 6.4 means that a Participant may not transfer an order to a foreign affiliate, or book a trade through a foreign affiliate, and execute the order in a manner that does not comply with Rule 6.4. In other words, an order directed to a foreign affiliate by the Participant or any other person subject to Rule 6.4 shall be executed on a marketplace unless one of the exemptions. Foreign branch offices of Participants are not separate from the Participant and as such are subject to Requirements.

Part 3 – Non-Canadian Accounts

Clause (e) of Rule 6.4 permits a Participant to trade off of a marketplace either as principal or as agent with non-Canadian accounts. A "non-Canadian account" is considered to be an account for a client who is not resident in Canada. There may be certain situations arising where a Participant is uncertain whether a particular account is a "non-Canadian account" for the purpose of this exemption. A trade by or on behalf of an individual normally resident in Canada, or an organization located in Canada, is considered to be a trade for a Canadian account. The fact that an individual may be located temporarily outside of Canada, that a foreign location is used to place the order or as the address for settlement or confirmation of the trade does not alter the account's status as a Canadian account. Trades made by or on behalf of bona fide foreign subsidiaries of Canadian institutions are considered to be non-Canadian accounts, if the order is placed by the foreign subsidiary.

For the purpose of this Policy, the relevant client of the Participant is the person to whom the order is confirmed.

Part 4 – Reporting Foreign Trades

Clause (e) of Rule 6.4 requires a Participant to report to a marketplace any trade made outside of Canada, unless the trade is reported to another stock exchange or an organized regulated market that disseminates details of trades in that market.

Participants shall report such trades to a marketplace no later than the close of business on the next trading day. The report shall identify the stock, volume, price (in the currency of the trade and in Canadian dollars) and time of the trade.

POLICY 7.1 – POLICY ON TRADING SUPERVISION OBLIGATIONS

Part 1 – Responsibility for Supervision and Compliance

For the purposes of Rule 7.1, a Participant shall supervise its employees, directors and officers and, if applicable, partners to ensure that trading in securities on a marketplace (an Exchange, QTRS or ATS) is carried out in compliance with the applicable Requirements (which includes provisions of securities legislation, UMIR, the Trading Rules and the Marketplace Rules of any applicable Exchange or QTRS). An effective supervision system requires a strong overall commitment on the part of the Participant, through its board of directors, to develop and implement a clearly defined set of policies and procedures that are reasonably designed to prevent and detect violations of Requirements.

The board of directors of a Participant is responsible for the overall stewardship of the firm with a specific responsibility to supervise the management of the firm. On an ongoing basis, the board of directors must ensure that the principal risks for non-compliance with Requirements have been identified and that appropriate supervision and compliance procedures to manage those risks have been implemented.

Management of the Participant is responsible for ensuring that the supervision system adopted by the Participant is effectively carried out. The head of trading and any other person to whom supervisory responsibility has been delegated must fully and properly supervise all employees under their supervision to ensure their compliance with Requirements. If a supervisor has not followed the supervision procedures adopted by the Participant, the supervisor will have failed to comply with their supervisory obligations under Rule 7.1(4).

When the Market Regulator reviews the supervision system of a Participant (for example, when a violation occurs of Requirements), the Market Regulator will consider whether the supervisory system is reasonably well designed to prevent and detect violations of Requirements and whether the system was followed.

The compliance department is responsible for monitoring and reporting adherence to rules, regulations, requirements, policies and procedures. In doing so, the compliance department must have a compliance monitoring system in place that is reasonably designed to prevent

and detect violations. The compliance department must report the results from its monitoring to the Participant's management and, where appropriate, the board of directors, or its equivalent. Management and the board of directors must ensure that the compliance department is adequately funded, staffed and empowered to fulfil these responsibilities.

Part 2 – Minimum Element of a Supervision System

For the purposes of Rule 7.1, a supervision system consists of both policies and procedures aimed at preventing violations from occurring and compliance procedures aimed at detecting whether violations have occurred.

The Market Regulator recognizes that there is no one supervision system that will be appropriate for all Participants. Given the differences among firms in terms of their size, the nature of their business, whether they are engaged in business in more than one location or jurisdiction, the experience and training of its employees and the fact that effective jurisdiction can be achieved in a variety of ways, this Policy does not mandate any particular type or method of supervision of trading activity. Furthermore, compliance with this Policy does not relieve Participants from complying with specific Requirements that may apply in certain circumstances. In particular, Participants are reminded that, in accordance with subsection (2) of Rule 10.1, the entry of orders must comply with the Marketplace Rules on which the order is entered and the Marketplace Rules on which the order is executed. (For example, for Participants that are Participating Organizations of the TSE, reference should be made to the Policy on "Connection of Eligible Clients of Participating Organizations").

Participants must develop and implement supervision and compliance procedures that exceed the elements identified in this Policy where the circumstances warrant. For example, previous disciplinary proceedings, warning and caution letters from the Market Regulator or the identification of problems with the supervision system or procedures by the Participant or the Market Regulator may warrant the implementation of more detailed or more frequent supervision and compliance procedures.

Regardless of the circumstances of the Participant, however, every Participant must:

1. Identify the relevant Requirements, securities laws and other regulatory requirements that apply to the lines of business in which the Participant is engaged (the "Trading Requirements").

2. Document the supervision system by preparing a written policies and procedures manual. The manual must be accessible to all relevant employees. The manual must be kept current and Participants are advised to maintain a historical copy.

3. Ensure that employees responsible for trading in securities are appropriately registered and trained and that they are knowledgeable about the Trading Requirements that apply to their responsibilities. Persons with supervisory

responsibility must ensure that employees under their supervision are appropriately registered and trained. The Participant should provide a continuing training and education program to ensure that its employees remain informed of and knowledgeable about changes to the rules and regulations that apply to their responsibilities.

4. Designate individuals responsible for supervision and compliance. The compliance function must be conducted by persons other than those who supervised the trading activity.

5. Develop and implement supervision and compliance procedures that are appropriate for the Participant's size, lines of business in which it is engaged and whether the Participant carries on business in more than one location or jurisdiction.

6. Identify the steps a firm will take when violations of Requirements, securities laws or other regulatory requirements have been identified. This may include cancellation of the trade, increased supervision of the employee or the business activity, internal disciplinary measures and/or reporting the violation to the Market Regulator or other regulatory organization.

7. Review the supervision system at least once per year to ensure it continues to be reasonably designed to prevent and detect violations of Requirements. More frequent reviews may be required if past reviews have detected problems with supervision and compliance. Results of these reviews must be maintained for at least five years.

8. Maintain the results of all compliance reviews for at least five years.

9. Report to the board of directors of the Participant or, if applicable, the partners, a summary of the compliance reviews and the results of the supervision system review. These reports must be made at least annually. If the Market Regulator or the Participant has identified significant issues concerning the supervision system or compliance procedures, the board of directors or, if applicable, the partners, must be advised immediately.

Part 3 - Minimum Compliance Procedures for Trading on a Marketplace

A Participant must develop and implement compliance procedures for trading in securities on a marketplace that are appropriate for its size, the nature of its business and whether it carries on business in more than one location or jurisdiction. Such procedures should be developed having regard to the training and experience of its employees and whether the firm or its employees have been previously disciplined or warned by the Market Regulator concerning the violations of the Requirements.

In developing compliance procedures, Participants must identify any exception reports, trading data and/or other documents to be reviewed. In appropriate cases, relevant information that cannot be obtained or generated by the Participant should be sought from sources outside the firm including from the Market Regulator.

The following table identifies minimum compliance procedures for monitoring trading in securities on a marketplace that must be implemented by a Participant. The compliance procedures and the Rules identified below are not intended to be an exhaustive list of the Rules and procedures that must be complied with in every case. Participants are encouraged to develop compliance procedures in relation to all the Rules that apply to their business activities.

The Market Regulator recognizes that the requirements identified in the following table may be capable of being performed in different ways. For example, one Participant may develop an automated exception report and another may rely on a physical review of the relevant documents. The Market Regulator recognizes that either approach may comply with this Policy provided the procedure used is reasonably designed to detect violations of the relevant Rule. The information sources identified in the following table are therefore merely indicative of the types of information sources that may be used.

Minimum Compliance Procedures for Trading Supervision

Rules and Policies	Compliance Review Procedures	Potential Information Sources	Frequency and Sample Size
Synchronizationo f Clocks Rule 10.14	• confirm accuracy of clocks and computer network times • remove unused or non-functional machines	• time clocks • Trading Terminal system time • OMS system time	• Daily
Audit Trail Requirements Rule 10.11	• ensure the presence of: -time stamp -quantity -price (if limit order) -security name or symbol -identity of trader (initial or sales code) -client name or account number-special instructions from any client -information required by audit trail requirements • for CFOd orders, ensure the presence of second time stamp and clear quantity or price changes	• order tickets • the Diary List	• quarterly • check 25 original client tickets selected randomly over the quarter
Electronic Records	• verify that electronic order information is: -being stored	• firm and service bureau systems	• annually

Rules and Policies	Compliance Review Procedures	Potential Information Sources	Frequency and Sample Size
Rule 10.11	-retrievable -accurate		
Manipulative and Deceptive Trading Rule 2.2(1), (2) Policy 2.2	• review trading activity for: -wash trading -unrelated accounts that may display a pattern of crossing securities -off-market transactions which require execution on a Marketplace	• order tickets • the diary list • new client application forms • monthly statements	• quarterly • review sampling period should extend over several days
Establishing Artificial Prices Rule 2.2(1), (3) Policy 2.2	• review tick setting trades entered at or near close • look for specific account trading patterns in tick setting trades • review accounts for motivation to influence the price • review separately, tick setting trades by Market on Close (MOC) or index related orders	• order tickets • the diary list • Equity History Report (available on TSE market data website for TSE-listed securities) • closing report from Market Regulator (delivered to Participants) • new client application forms	• monthly • emphasis on trades at the end of month, quarter or year (for trades not on MOC or index related) • for MOC or index related orders, check for reasonable price movement
Grey or Watch List Rule 2.2	• review for any trading of Grey or Watch List issues done by proprietary or employee accounts	• order tickets • the diary list • trading blotters • firm Grey List or Watch List • monthly statements	• daily
Restricted List Rule 2.2 Rule 7.8 Rule 7.9	• review for any trading of restricted list issues done by proprietary or employee accounts	• order tickets • the diary list • trading blotters • firm Restricted List • monthly statements	• daily
Frontrunning Rule 4.1	• review trading activity of proprietary and employee accounts prior to: -large client orders -transactions that would impact the market	• order tickets • the diary list • equity history report	• quarterly • sample period should extend over several days
Sales from Control Blocks Securities legislation incorporated by Rule 10.1	• review all known sales from control blocks to ensure regulatory requirements have been met • review large trades to determine if they are undisclosed sales from control block	• order tickets • trading blotter • new client application form • OSC bulletin • Exchange company bulletins	• as required • sample trades over 250,000 shares

Rules and Policies	Compliance Review Procedures	Potential Information Sources	Frequency and Sample Size
Order Handling Rules Rule 5.1 Rule 5.3 Rule 6.3 Rule 8.1	• review client-principal trades of 50 standard trading units or less for compliance with order exposure and client principal transactions rules • verify that orders of 50 standard trading units or less are not arbitrarily withheld from the market	• order tickets • equity history report • trading blotters • the diary list	• quarterly • sample, specifically: -trader managed orders of 50 standard trading units
Order Markers Rule 6.2 Marketplace Rules incorporated by Rule 10.1 (for marketplaces on which the order is entered or executed)	• verify that appropriate client, employee, and proprietary trade markers are being employed • ensure that client orders are not being improperly entered with pro markers • verify that appropriate order designations are included on orders	• order tickets • trading blotters • the diary list	• quarterly • samples should include one full day of trading for orders not entered through the OMS system
Trade Disclosures Securities legislation incorporated by Rule 10.1	• verify appropriate trade disclosures are made on client confirmations -principal -average price -related Issuer	• trading blotters • client confirmations • the diary list • order tickets	• quarterly • sample should include non-OMS trades
Normal Course Issuer Bids Marketplace Rules (e.g. Rule 6-501 and Policy 6-501 of TSE and Policy 5.6 of CDNX)	• review NCIBs for: -maximum stock purchase limits of 5% in 1 year or 2% in 30 days are observed -purchases for NCIBs are not occurring while a sale from control is being made -purchases are not made on upticks -trade reporting to Exchange (if the firm reports on behalf of issuer)	• order tickets • the diary list • trading blotters • new client application form	• quarterly

Part 4 – Specific Procedures Respecting Client Priority and Best Execution

Participants must have written compliance procedures reasonably designed to ensure that their trading does not violate Rule 5.3 or 5.1. At a minimum, the written compliance procedures must address employee education and post-trade monitoring.

The purpose of the Participant's compliance procedures is to ensure that pro traders do not knowingly trade ahead of client orders. This would occur if a client order is withheld from entry into the market and a person with knowledge of that client order enters another order that will trade ahead of it. Doing so could take a trading opportunity away from the first client. Withholding an order for normal review and order handling is allowed under Rules 5.3 and 5.1, as this is done to ensure that the client gets a good execution. To ensure that the Participants' written compliance procedures are effective they must address the potential problem situations where trading opportunities may be taken away from clients.

Potential Problem Situations

Listed below are some of the potential problem situations where trading opportunities may be taken away from clients.

1. Retail brokers or their assistants withholding a client order to take a trading opportunity away from that client.

2. Others in a brokerage office, such as wire operators, inadvertently withholding a client order, taking a trading opportunity away from that client.

3. Agency traders withholding a client order to allow others to take a trading opportunity away from that client.

4. Proprietary traders using knowledge of a client order to take a trading opportunity away from that client.

5. Traders using their personal accounts to take a trading opportunity away from a client.

Written Compliance Procedures

It is necessary to address in the written compliance procedures the potential problem situations that are applicable to the Participant. Should there be a change in the Participant's operations where new potential problem situations arise then these would have to be addressed in the procedures. At a minimum, the written compliance procedures for employee education and post-trade monitoring must include the following points.

Education

- Employees must know the Rules and understand their obligation for client priority and best execution, particularly in a multiple market environment.

- Participants must ensure that all employees involved with the order handling process know that client orders must be entered into the market before non-client and

proprietary orders, when they are received at the same time.

- Participants must train employees to handle particular trading situations that arise, such as, client orders spread over the day, and trading along with client orders.

Post-Trade Monitoring Procedures

- All brokers' trading must be monitored as required by Rule 7.1.

- Complaints from clients and Registered Representatives concerning potential violations of the rule must be documented and followed-up.

- All traders' personal accounts and those related to them, must be monitored daily to ensure no apparent violations of client priority occurred.

- At least once a month, a sample of proprietary inventory trades must be compared with contemporaneous client orders.

- In reviewing proprietary inventory trades, Participants must address both client orders entered into order management systems and manually handled orders, such as those from institutional clients.

- The review of proprietary inventory trades must be of a sample size that sufficiently reflects the trading activity of the Participant.

- Potential problems found during these reviews must be examined to determine if an actual violation of Rule 5.3 or 5.1 occurred. The Participant must retain documentation of these potential problems and examinations.

- When a violation is found, the Participant must take the necessary steps to correct the problem.

DOCUMENTATION

- The procedures must specify who will conduct the monitoring.

- The procedures must specify what information sources will be used.

- The procedures must specify who will receive reports of the results.

- Records of these reviews must be maintained for five years.

- The Participant must annually review its procedures.

POLICY 8.1 – CLIENT-PRINCIPAL TRADING

Part 1 - General Requirements

Rule 8.1 governs client-principal trades. It provides that, for trades of 50 standard trading units of less, a Participant trading with one of its clients as principal must give the client a better price than the client could obtain on a marketplace. A Participant must take reasonable steps to ensure that the price is the best available price for the client taking into account the condition of the market. If the security is inter-listed, the rule extends to all Canadian markets on which the security is listed. This means that if the Participant is buying, the client must receive a higher price than is bid on any Canadian marketplace, and, if the Participant is selling, the client must pay a lower price than the lowest offering.

For client-principal trades greater than 50 standard trading units, the Participant may do the trade provided the client could not obtain a better price on a marketplace in accordance with the best execution obligations under Rules 5.1 and 5.2. The Participant must take reasonable steps to ensure that the best price is obtained and the price to the client is justified by the condition of the market.

Part 2 – Legal Aspects of the Client-Principal Relationship

A Participant owes a fiduciary duty to its clients. This duty and investors' trust in our Participants are fundamental to investor confidence in the integrity of the market. In the Market Regulator's view, this relationship of trust arises where there is reliance by the client on the Participant's expertise in securities matters. From the point of view of both the client and the Participant, the fiduciary responsibility exists regardless of the legal form of the transaction. In other words, an investor who relies on the expertise of a Participant expects the Participant to act in the investor's best interests regardless of whether the Participant is acting as agent or as principal. The legal framework underpinning client-principal trades was stated in the 1965 report of the Royal Commission on the Windfall Co. scandal:

> An agent must conduct himself so that the interest of the person in whose behalf he is acting is not brought into conflict with his personal interest. An agent may not make for himself any deal which could have been made for his client within the scope of the client's instructions; if he does, he is assumed to have been acting on his client's behalf and the client is entitled to the benefit of the transaction. An agent must disclose to the client any fact known to the agent which would be likely to operate on the client's judgment. An agent may not, in connection with his client's business, make a secret profit for himself.

These restrictions flow from the recognition of the serious conflicts inseparable from the agency relationship, and from a corresponding recognition that every such conflict must be resolved in favour of the client. A principal trade may be subject to attack if it appears that the Participant did not act to the best advantage of its client even if the Participant complies

with the technical requirements of the Rule. For example, if the principal account profited from the trade by unwinding the position again soon after the principal trade was made, or if the Registered Representative receives a higher commission than for agency transactions of a similar size involving similar securities, the Participant will find it more difficult to justify its actions. Participants should obtain their own legal advice as to the propriety of their client-principal trading practices. The following are considerations in any client-principal trade:

Consent — At common law, the prior informed consent of the client must be obtained before the agent may act as principal. This is impractical in the context of trading securities on a marketplace, where at the time of receipt of the client's order the Participant will likely not know who will be on the other side. If the Participant, through the Registered Representative or other employee knows that the firm or a non-client of the firm will or probably will take the other side, the client's consent should be obtained. In particular, if the Registered Representative wishes to take the other side of the trade with their client, the client must be informed and consent to the trade in advance. Such consent must be specific to that trade and cannot be in a general consent to any future trades with the Registered Representative. As promptly as possible following the execution of a principal trade, the client should be advised that all or part of the securities taken or supplied were from an account in which the Participant or a non-client of the Participant has an interest. This advice would form part of the usual discussion that occurs when a Registered Representative confirms to the client that the client's order has been filled. In addition, the written confirmation must disclose that the order has been filled in a principal transaction.

Nature of the Client — Some clients are in greater need of protection from the potential conflict of interest in client-principal trades. The onus on the Participant usually will be reduced if the client is a fully informed institutional client with regard to the state of the market. Sophisticated institutional clients are able to judge whether a specific net price is appropriate in the context of the market. If there was no prior discussion with the client concerning executing the client's order in a client-principal trade, or if there are no standing instructions on handling of orders, the Participant must judge whether any steps need be taken, taking into account the size of the order and other circumstances, to ensure that a better price is not available. To a large degree this will depend on the depth of the market and normal liquidity of the security.

Suitability — Compliance with the client-principal trading rules does not relieve a Participant of its suitability and "know your client" obligations. As with any other trade, Participants must ensure that the trade is suitable for the client, even if the best possible price has been obtained.

Facilitation Accounts — The rules do not apply to a client-principal trade where the inventory account was used solely to facilitate the execution or confirmation of a client order (for example, an inventory accumulation account used to give an institutional client a single average-price confirmation). In these cases, the client is the beneficial owner of the position

in the inventory account at all times.

Refusal by Client — Participants should ensure that procedures are in place to identify orders that should not be affected on a principal basis. This is necessary to deal with situations where clients notify a Participant that they do not consent to principal trading generally or to particular principal trades.

POLICY 10.8 - POLICY ON PRACTICE AND PROCEDURE

Part 1 - General Procedure and Practice

1.1 Definitions

In this Policy, unless the subject matter or context otherwise requires:
"**applicant**" means the party who instituted the proceedings for a written hearing.

"**document**" includes a sound recording, videotape, film, photographs, chart, graph, map, plan, survey, book of account, and information recorded or stored by means of any device.

"**electronic hearing**" means a hearing held by conference telephone or some other form of electronic technology allowing persons to hear one another.

"**oral hearing**" means a hearing at which the parties or their counsel or agents attend before the Hearing Panel in person.

"**party**" includes the staff of the Market Regulator.

"**Secretary**" means the Secretary of the Market Regulator or other officer or employee of the Market Regulator designated by the Board to perform the functions of the Secretary for the purposes of this Policy.

"**written hearing**" means a hearing held by means of the exchange of documents, whether in written form or by electronic means.

1.2 Procedural Power of Hearing Panel

(1) A Hearing Panel may:

(a) exercise any power under this Policy on its own initiative or at the request of a party;

(b) issue general or specific procedural directions at any time before or

during a hearing; and

(c) waive any procedural requirement with the consent of the parties.

(2) A Hearing Panel may hear such evidence relating to a matter that the Hearing Panel deems relevant and the Hearing Panel is not bound by the legal or technical rules of evidence.

(3) If any provision of this Policy is inconsistent with any applicable statutory requirement, the Hearing Panel shall order such change in the practice and procedure as to comply with the applicable statutory requirement.

1.3 Irregularity in Form

No determination, document, hearing, order or interim order is invalid by reason only of a defect or other irregularity in form.

1.4 Language of Proceedings

(1) If, in accordance with any applicable statutory requirement, a person would have a right to a hearing conducted in the French language then, upon the request of such person in writing to the Secretary or in such other manner as provided by law, all documents prepared by or on behalf of the Market Regulator and served or delivered on such person shall be in French and any hearing or other proceeding shall be conducted in French.

(2) Despite subsection (1), any document to be disclosed in accordance with section 8.1(1) shall be provided in the language that the document was originally written.

1.5 Service and Filing

(1) **Service** - A document required under this Policy to be served must be served by one of the following methods:

(a) personal service on an individual, by leaving a copy of the document with the individual;

(b) personal service on any corporation, by leaving a copy of the document with an officer or director of the corporation, or with an individual at any place of business of the corporation who appears to be in control or management of the place of business;

(c) service by sending a copy of the document by mail, courier or

telephone transmission to the last known address or fax number of the party to be served;

(d) service on a party who is represented by a solicitor or an agent by,

(i) acceptance of a copy of the document on behalf of the solicitor or the agent,

(ii) sending a copy of the document by mail, courier or telephone transmission to the officer of the solicitor or agent, or

(iii) depositing a copy of the document at a document exchange of which the solicitor or agent is a member or subscriber; or

(e) service by any other method permitted by the Hearing Panel.

(2) **Proof of Service** - The Hearing Panel may accept proof of service of a document by an affidavit of the person who served it.

(3) **Filing** - A document required to be filed with the Hearing Panel under this Policy must be filed by either personal delivery of a copy or sending a copy by mail, courier or telephone transmission to Secretary.

(4) **Effective Date of Service or Filing** - Service or filing of a document is deemed to be effective:

(a) if served personally, on the same day as service;

(b) if sent by mail, on the fifth day after the day of mailing;

(c) if sent by telephone transmission, on the same day as the transmission unless received after 5 p.m., in which case the document will be deemed to have been served or filed on the next day that is not a holiday;

(d) if sent by courier, on the second day after the day on which the document was given to the courier by the party serving or filing, unless the second day is a holiday, in which case the effective date is the next day which is not a holiday;

(e) if deposited at a document exchange, on the first day after the day on which the document was deposited, unless the first day is a holiday, in which case the effective date is the next day which is not a holiday; or

(f) as otherwise ordered by the Hearing Panel.

(5) **Required Information on Documents** - A party serving or filing a document shall include the following information:

(a) the party's name, address, telephone number and fax number;

(b) the style of cause of the hearing to which the document relates;

(c) the name, address, telephone and fax number of the party's solicitor or agent; and

(d) the name of the party or solicitor or agent with whom the document is being served or filed.

(6) Extension or Abridgment of Time - Any time period prescribed by this Policy may be extended or abridged as follows:

(a) upon order of the Hearing Panel or after expiration of a prescribed time period on such terms as the Hearing Panel considers appropriate; or

(b) on consent of the parties before the expiration of a prescribed time period.

Part 2 – Statement of Allegations

2.1 Provision of Statement of Allegations

If the Market Regulator is of the opinion that a person described in subsection (1) of Rule 10.2 has contravened a Requirement or a person is liable for the contravention of a Requirement in accordance with Rule 10.3, the Market Regulator may serve a Statement of Allegations on such person.

2.2 Contents of Statement of Allegations

A Statement of Allegations must contain:

(a) a reference to the Requirement that the Market Regulator is of the opinion has been contravened;

(b) the facts alleged and intended to be relied upon be the Market Regulator; and

(c) the conclusions drawn by the Market Regulator based on the alleged facts.

Part 3 - Offers of Settlement and Settlement Agreements

3.1 Provision of Offer of Settlement

If the Market Regulator has served a Statement of Allegations on any person, the Market Regulator may serve an Offer of Settlement on such person concurrent with or at any time after the serving of the Statement of Allegations.

3.2 Contents of Offer of Settlement

An Offer of Settlement must:

(a) be in writing;

(b) be signed by the President of the Market Regulator or such other officer of the Market Regulator as is authorized to make an Offer of Settlement;

(c) specify, that if the Offer of Settlement is accepted, the date on or before which the Settlement Agreement must be served on the Market Regulator provided that the date shall not be earlier than 20 days after the Offer of Settlement has been served;

(d) contain a reference to the Statement of Allegations intended to be relied upon be the Market Regulator;

(e) specify the penalties or remedies to be imposed by the Market Regulator pursuant to Rule 10.4 and the assessment of any expenses to be made pursuant to Rule 10.5; and

(f) contain a statement that if the Offer of Settlement is accepted by the person on whom it is served:

(i) the resulting Settlement Agreement is conditional upon the approval of the Hearing Panel, and

(ii) the person shall waive all rights under the Rules and other Requirements to a hearing or to an appeal or review if the Settlement Agreement is approved by the Hearing Panel.

3.3 Acceptance of Offer of Settlement

An Offer of Settlement may be accepted by a person upon whom it has been served by that person or such other individual authorized to sign on behalf of that person:

(a) executing the Offer of Settlement; and

(b) serving the executed document on the Market Regulator on or before the date specified in the Offer of Settlement.

3.4 Submission of Settlement Agreement for Approval

A Settlement Agreement shall be submitted to a Hearing Panel of three members within 20 days following the acceptance of the Offer of Settlement and the Hearing Panel may:

(a) approve the Settlement Agreement; or

(b) reject the Settlement Agreement.

3.5 Without Prejudice Negotiations

All negotiations of an Offer of Settlement or a Settlement Agreement are without prejudice to the Market Regulator and all other persons involved in the negotiations and the negotiations may not be used as evidence or referred to in any proceedings.

3.6 Approval of Settlement Agreement

If the Settlement Agreement is approved by the Hearing Panel:

(a) the Hearing Panel shall issue an order in accordance with the terms of the Settlement Agreement;

(b) the matter becomes final and no party to the Settlement Agreement may appeal or seek a review of the matter;

(c) the disposition of the matter shall be included in the permanent record of the Market Regulator in respect of the person that accepted the Offer of Settlement;

(d) the Market Regulator shall publish, as soon as practicable, a summary of:

(i) the Requirement contravened,

(ii) the facts, and

(iii) the disposition of the matter, including any penalty or remedy imposed and any expenses assessed,

and such summary shall specify that any person may obtain or inspect a copy of the Settlement Agreement in the form approved by the Hearing Panel; and

(e) the Market Regulator shall publish, as soon as practicable, the Settlement Agreement in the form approved by the Hearing Panel and this obligation may be satisfied by the posting of the Settlement Agreement to any website maintained by the Market Regulator.

3.7 Rejection of Settlement Agreement

If the Settlement Agreement is rejected by the Hearing Panel, the Market Regulator may proceed with a hearing of the matter and any member of the Hearing Panel that reviewed the Settlement Agreement must not participate further in any way in the matter.

Part 4 – Notice of Hearing

4.1 Provision of Notice of Hearing

If the Market Regulator has served a Statement of Allegations on any person, the Market Regulator may serve a Notice of Hearing on such person concurrent with or at any time after the serving of the Statement of Allegations provided that a Notice of Hearing may not be issued:

(a) if the Market Regulator has served an Offer of Settlement, until after the date specified in the Offer of Settlement by which the Offer of Settlement may be accepted; and

(b) if an Offer of Settlement has been accepted, until the Settlement Agreement has been rejected by a Hearing Panel.

4.2 Contents of Notice of Hearing

A Notice of Hearing must contain:

(a) details about the manner in which the hearing will be held including, if applicable to the form of hearing, the date, time and place of the hearing;

(b) a reference to the statutory or other authority under which the hearing will be held;

(c) a statement as to the purpose of the hearing;

(d) a reference to the Statement of Allegations intended to be relied upon be the

Market Regulator;

(e) a statement that the party notified may object to holding the hearing as an electronic or a written hearing and the procedure to be followed for that purpose;

(f) a statement respecting the effect of section 9.4; and

(g) any other information the Market Regulator or the Hearing Panel considers advisable.

4.3 Date of Hearing

(1) Unless the party on whom the Notice of Hearing is served has consented in writing, the date of the initial hearing specified in the Notice of Hearing shall not be earlier than 45 days after the date the Notice of Hearing has been served.

(2) For greater certainty, any hearing of a matter after the date of the initial hearing specified in the Notice of Hearing shall be as directed or ordered by the Hearing Panel.

Part 5 – Form of Hearing

5.1 Factors in Determining to Hold Oral, Electronic or Written Hearing

In deciding whether to hold an oral hearing, written hearing or electronic hearing, the Hearing Panel shall take into account any relevant factors, which may include:

(a) the suitability of the hearing format considering the subject matter of the hearing, including the extent to which matters are in dispute;

(b) whether the nature of the evidence is appropriate for the hearing format, including whether credibility is an issue and the extent to which the facts are in dispute;

(c) the extent to which the matters in dispute are questions of law;

(d) the convenience of the parties;

(e) the cost, efficiency and timeliness of the proceedings;

(f) avoidance of unnecessary length or delay;

(g) ensuring a fair and understandable process;

(h) the desirability or necessity of public participation or public access to the Hearing Panel's process; and

(i) any other consideration which may be taken into account in accordance with applicable legislation.

5.2 Notice of Objection

(1) A party who objects to a hearing being held as an electronic or as a written hearing shall file and serve on all other parties a Notice of Objection within 5 days after receiving the Notice of Hearing.

(2) Despite subsection (1), a party may not object to the Hearing Panel conducting an electronic hearing to deal with procedural matters.

5.3 Contents of Notice of Objection

A Notice of Objection shall be in writing and shall:

(a) state whether the holding of an electronic or written hearing is likely to cause the party significant prejudice;

(b) set out reasons for the objection; and

(c) state all facts upon which the party relies and provide the evidence on which the party relies in relation to the objection.

5.4 Procedure When Objection Made

If the Hearing Panel receives a Notice of Objection, the Hearing Panel shall:

(a) accept the objection, cancel the form of hearing and either schedule an oral hearing or, with consent of the parties, schedule a written hearing or an electronic hearing as the case may be;

(b) if permitted by applicable law, reject the objection provided the Hearing Panel is satisfied that there will not be significant prejudice to the objecting party, inform every other party that they are not required to respond to the Notice of Objection and proceed with the form of hearing specified in the Notice of Hearing; or

(c) notify all other parties that they may respond to the Notice of Objection by

serving on ever other party and filing a written response in such form and within such time as is directed by the Hearing Panel and, after considering the objection and all responses, proceed with the form of hearing specified in the Notice of Hearing, schedule an oral hearing, or, with consent of the parties, schedule a written hearing or an electronic hearing as the case may be.

5.5 Converting Type of Hearing

(1) Subject to any applicable statutory requirements, the Hearing Panel may continue:

(a) a written or electronic hearing as an oral hearing;

(b) an oral or written hearing as an electronic hearing; or

(c) an oral or electronic hearing as a written hearing, unless a party objects.

(2) If the Hearing Panel decides to convert the type of hearing that was specified in the Notice of Hearing, the Hearing Panel shall notify the parties of its decision and may supply directions as to the holding of that hearing and any procedures for such hearing.

Part 6 - Motions

6.1 Notice of Motion

Where a party intends to bring a motion before the Hearing Panel at a hearing, written notice shall be served on all other parties and filed with the Hearing Panel at least 5 days before the day the motion is to be heard.

6.2 Contents of Notice of Motion

The Notice of Motion must contain the relief sought, the grounds for the motion and the evidence to be relied upon.

6.3 Hearing Date for Notice of Motion

Except when a motion is to be heard on a scheduled hearing date or is to be argued in writing, the party bringing the motion shall, before serving the Notice of Motion, file a copy of the Notice of Motion with the Secretary and obtain a date for the Hearing Panel to hear the motion.

Part 7 - Pre-Hearing Conferences

7.1 Order for a Pre-hearing Conference

At any time prior to a hearing, the Hearing Panel on its own initiative, or at the request of one or more of the parties, may order the parties to attend a pre-hearing conference.

7.2 Composition of the Hearing Panel at the Pre-hearing Conference

(1) A pre-hearing conference shall be held before the chairman of the Hearing Panel and any other member of the Hearing Panel who may be required to assist the chairman.

(2) The members of the Hearing Panel presiding at the pre-hearing conference shall not preside at the hearing of the proceeding unless all parties consent in writing or on the record;

7.3 Issues to be Considered

At a pre-hearing conference the Hearing Panel may consider any appropriate issue, including:

(a) the settlement of any or all of the issues;

(b) the identification and simplification of the issues;

(c) the disclosure of documents;

(d) facts or evidence that may be agreed upon;

(e) evidence to be admitted on consent;

(f) the identification of any preliminary objections;

(g) procedural issues including the dates by which any steps in the hearing are to be taken or begun, the estimated duration of the hearing, and the date that the hearing will begin; and

(h) any other issue that may assist in the just and most expeditious disposition of the hearing.

7.4 Notice of Pre-hearing Conference

(1) Notice to Parties and Others - The Secretary shall give notice of any

pre-hearing conference to the parties and to such other persons as the Hearing Panel directs.

(2) Contents of Notice -The notice of any pre-hearing conference must include:

(a) the date, time, place and purpose of the pre-hearing conference;

(b) whether parties are required to exchange or file documents or pre-hearing submissions in accordance with section 7.5 and, if so, the issues to be addressed and the date by which the documents or pre-hearing submissions must be exchanged and filed;

(c) whether parties are required to attend in person, and

(i) if so, that they may be represented by counsel or agent, or

(ii) if not, that their counsel or agent must be given authority to make agreements and undertakings on their behalf respecting the matters to be addressed at the pre-hearing conference;

(d) a statement that if a party does not attend in person or by counsel or an agent at the pre-hearing conference, the Hearing Panel may proceed in the absence of that party; and

(e) a statement that the Hearing Panel presiding at the pre-hearing conference may make orders with respect to the conduct of the proceeding which will be binding on all parties.

7.5 Exchange of Documents

The Hearing Panel designated to preside at the pre-hearing conference may:

(a) order the parties to exchange or file by a specified date documents or pre-hearing submissions; and

(b) set the issues to be addressed in the pre-hearing submissions and at the pre-hearing conference.

7.6 **Oral, Written or Electronic**

A pre-hearing conference may be held in person, in writing or electronically as the Hearing Panel may direct.

7.7 Inaccessible to the Public

(1) Pre-hearing Conference - A pre-hearing conference shall be held in the absence of the public unless the Hearing Panel directs that it be open to the public.

(2) Documents and Submissions - Any pre-hearing documents or pre-hearing submissions ordered under section 7.5 shall not be disclosed to the public.

7.8 Settlement of Issues

If the settlement of any issues is discussed at a pre-hearing conference:

(a) statements made without prejudice at a pre-hearing conference may not be communicated to the hearing panel;

(b) (b) an agreement to settle any or all of the issues binds the parties to the agreement but is subject to approval by such other panel of the Hearing Panel as is assigned to consider the settlement; and

(c) all agreements, orders and decisions which dispose of a proceeding as it affects any party shall be made available to the public unless the Hearing Panel directs otherwise.

7.9 Orders, Agreements, Undertakings

(1) **Preparation of Memorandum** - Any orders, agreements and undertakings made at a pre-hearing conference shall be recorded in a memorandum prepared by or under the direction of the members of the Hearing Panel presiding at the pre-hearing conference.

(2) **Provision of Copies** - Copies of this memorandum shall be provided to the parties and to the members of the Hearing Panel presiding at the hearing of the matter and to such other persons as the members of the Hearing Panel presiding at the pre-hearing conference direct.

(3) **Binding Effect** - Any orders, agreements and undertakings in the memorandum shall govern the conduct of the hearing and are binding upon the parties at the hearing unless otherwise ordered by the Hearing Panel.

7.10 No Communication to Hearing Panel

Other than any orders, agreements and undertakings recorded in a memorandum prepared in accordance with section 7.9, no information about the pre-hearing conference shall be disclosed to the members of the Hearing Panel who preside at the hearing unless all parties consent in writing or on the record.

Part 8 - Disclosure

8.1 Requirement to Disclose

(1) **Documents and Other Things** - Each party to a hearing shall, as soon as practicable after service of the Notice of Hearing, and in any case no later than 10 days before the day upon which the hearing is scheduled to commence:

(a) deliver to every other party copies of all documents that the party intends to refer to or tender as evidence at the hearing; and

(b) make available for inspection by every other party anything other than a document that the party intends to refer to or tender as evidence at the hearing.

(2) **By Order of Hearing Panel** - At any stage in a hearing, the Hearing Panel may order a party to provide to another party any other disclosure that the Hearing Panel considers appropriate within a time period and on terms and conditions as specified by the Hearing Panel.

8.2 Failure to Make Disclosure

If a party fails to make a disclosure of a document or thing in compliance with section 8.1, the party may not refer to the document or thing or tender it as evidence at the hearing without the consent of the Hearing Panel on such terms and conditions as the Hearing Panel considers just.

8.3 Witness Lists and Statements

(1) **Provision of Witness Lists and Statements** – Subject to section 8.4, a party to a hearing shall, as soon as practicable after service of the Notice of Hearing, and in any case no later than 10 days before the day upon which the hearing is scheduled to commence, provide to every other party:

(a) a list of the witnesses the party intend to call to give evidence at the hearing; and

(b) in respect of each witness named on the list, either:

(i) a witness statement signed by the witness, or

(ii) a summary of the anticipated evidence that the witness is expected to give at the hearing.

(2) **Contents of Witness Statements** - A witness statement or summary of the anticipated evidence that the witness is expected to give at the hearing must contain:

(a) the substance of the evidence of the witness;

(b) a reference to all documents, if any, that the witness will refer to; and

(c) the name and address of the witness, or in the alternative, the name of a person through whom the witness can be contacted.

(3) **Failure to Provide Witness List or Statement**

If a party fails to include a witness in the witness list or provide a witness list or a witness statement or a summary of the anticipated evidence as required by subsection (1), the party may not call the witness at the hearing without the consent of the Hearing Panel on such terms and conditions as the Hearing Panel considers just.

(4) **Incomplete Witness Statement**

A party may not call a witness to testify to matters not disclosed in the witness statement or summary of the anticipated evidence as required by subsection (2), without the consent of the Hearing Panel on such terms and conditions as the Hearing Panel considers just.

8.4 Expert Witness

(1) **Notice of Intent to Call Expert** - A party that intends to call an expert witness at the hearing shall, at least 30 days before the day upon which the hearing is scheduled to commence, inform the other parties of the intent to call the expert witness and the issue on which the expert will be giving evidence.

(2) **Provision of Expert's Report** - A party that intends to refer to or to tender as evidence a report prepared by an expert witness at a hearing shall, at least 15 days before the day upon which the hearing is scheduled to commence, provide to every other party a copy of the report signed by the expert containing:

(a) the name, address and qualifications of the expert;

(b) the substance of the anticipated evidence of the expert; and

(c) a list of all the documents, if any, to which the expert will refer.

(3) **Failure to Advise of Intent to Call Expert** - A party that fails to comply with subsection (1) may not call the expert as a witness without the consent of the Hearing Panel on such terms and conditions as the Hearing Panel considers just.

(4) **Failure to Provide Expert's Report** - A party that fails to comply with subsection (2) may not refer to or tender as evidence the expert's report without the consent of the Hearing Panel on such terms and conditions as the Hearing Panel considers just.

Part 9 – Conduct of Hearing

9.1 Particular Practice and Procedure for Oral Hearing

(1) A person served with a Notice of Hearing shall, within 20 days from the date of service, serve on the Market Regulator a Reply signed by the person or by an individual authorized to sign on behalf of the person that specifically denies, with the particulars of the supporting facts and arguments, any or all of the facts alleged or the conclusions drawn by the Market Regulator as set out in the Statement of Allegations.

(2) The Hearing Panel may accept as having been proven any facts alleged or conclusions drawn by the Market Regulator in the Statement of Allegations that are not specifically denied, with the particulars of the supporting facts and arguments, in the Reply.

(3) A person served with a Notice of Hearing is entitled at an oral hearing of the matter:

(a) to attend and be heard in person;

(b) to be represented by counsel or an agent;

(c) to call and examine witnesses and to present arguments and submissions; and

(d) to conduct cross-examinations of witnesses at the hearing reasonably required for a full and fair disclosure of the facts in relation to which they have given evidence.

9.2 Particular Practice and Procedure for Written Hearing

(1) **Submissions and Supporting Documents** - The applicant shall, within 7 days after receiving notice of the written hearing, file and serve on all other

parties its written submissions setting out,

(a) the grounds upon which the request for the remedy or order is made;

(b) a statement of the facts relied on in support of the remedy or order requested;

(c) the evidence relied on in support of the remedy or order requested; and

(d) any law relied on in support of the remedy or order requested.

(2) **Additional Information** - The Hearing Panel may require the applicant to provide further information, and this information must be supplied to every other party.

(3) **Response** - A party may respond to the submissions of the applicant by filing and serving on every other party a written response within 5 days after the submissions and supporting documents of the applicant are served on the party which response shall set out the submissions of the responding party relating to the matter before the Hearing Panel and be accompanied by a statement of the facts and any evidence and any law relied on in support of the response.

(4) **Reply to Response** - The applicant may reply to a response by filing and serving on every other party a written reply within 5 days after a response from a party is served on the applicant which reply to the response must set out the position of the applicant to the response and be accompanied by any additional facts, evidence and law that the applicant relies on in support of the reply.

(5) **Questions and Answers** - If a written hearing involves evidentiary issues, the Hearing Panel may direct that,

(a) the applicant and any responding party may ask such questions of the other as are reasonably necessary for the purpose of clarification of the other's evidence by filing and serving on every other party written questions within such time as is directed by the Hearing Panel; and

(b) the party to whom the questions are directed shall file and serve on every other party written answers to such questions within such time as is directed by the Hearing Panel.

(6) **Evidence** - The evidence must:

(a) be in writing, or when electronic transmission is permitted, it must be in the form directed by the Hearing Panel;

(b) identify the person giving the evidence and be in certified form or in affidavit form; and

(c) include all documents and things a party is relying on to support the remedy or order requested or the response or to otherwise support the position a party is taking in the hearing.

(7) **No Oral Examination** - Unless ordered by the Hearing Panel, there will be no oral examination.

(8) **Presentation of Witness** - If a party requests, the Hearing Panel may order that a party present a witness to be examined or cross-examined upon such conditions as the Hearing Panel directs.

9.3 Particular Practice and Procedures for Electronic Hearing

The Hearing Panel may, in deciding that a hearing will be held electronically, impose conditions including specifying the party responsible for making the necessary arrangements for the electronic hearing and requiring that a party requesting an electronic hearing pay all or part of the cost of providing the facilities necessary for the conduct of the hearing electronically.

9.4 Failure of Defendant to Reply, Attend or Participate

If a person served with a Notice of Hearing fails to:

(a) in the case of an oral hearing, serve a Reply in accordance with section 9.1;

(b) in the case of written hearing, serve a Response in accordance with section 9.2 or

(c) attend or participate at the hearing specified in the Notice of Hearing,

the Market Regulator may proceed with the hearing on the matter on the date and at the time and place set out in the Notice of Hearing without further notice to and in absence of the person, and the Hearing Panel may, if permitted by law, accept the facts alleged or the conclusions drawn by the Market Regulator in the Statement of Allegations as having been proven by the Market Regulator and the Hearing Panel may impose any one or more of the penalties or remedies authorized by the Rules and assess expenses as authorized by the Rules.

9.5 Order for Particulars or Amendment

At any time in a hearing, the Hearing Panel may order:

(a) any party to provide to any other party such particulars as the Hearing Panel considers necessary for a full and satisfactory understanding of the subject of the hearing; and

(b) after providing parties an opportunity to make submissions, that the Statement of Allegations be amended in accordance with the evidence introduced at the hearing.

9.6 Disposition

(1) The Hearing Panel shall give its final decision and order, if any, in a hearing in writing and shall give reasons in writing.

(2) The Hearing Panel shall send to each party to the hearing a copy of its final decision and order, if any, including the reasons therefore if any have been given by any method of service permitted under section 1.4.

(3) The disposition of the matter shall be included in the permanent record of the Market Regulator in respect of the person that is the subject of the hearing.

(4) The Market Regulator shall publish, as soon as practicable, a summary of the decision and order, including:

(a) the Requirement contravened or alleged to be contravened;

(b) the facts; and

(c) the disposition of the matter, including any penalty or remedy imposed and any expenses assessed; and

(d) a statement that any person may obtain or inspect a copy of the decision and order of the Hearing Panel.

(5) The Market Regulator shall publish, as soon as practicable, the decision and order of the Hearing Panel and this obligation may be satisfied by the posting of the decision and order to any website maintained by the Market Regulator.

Part 10 – Hearing Committee and Hearing Panels

10.1 Composition of Hearing Committee

(1) On the date that a marketplace retains the Market Regulator to be its regulation service provider and every third annual anniversary thereafter, each marketplace that has retained the Market Regulator to be its regulation service provider shall be entitled to nominate 20 persons to be a member of the Hearing Committee in each jurisdiction in which the marketplace is:

(a) in the case of an Exchange or QTRS, recognized or exempt from recognition as an Exchange or QTRS in accordance with applicable securities legislation; and

(b) in the case of an ATS, registered in accordance with applicable securities legislation.

(2) Of the persons nominated by a marketplace in each jurisdiction, at least:

(a) one-third shall be members in good standing of the Law Society of that jurisdiction or persons retired from membership of the Law Society of that jurisdiction in good standing; and

(b) two-thirds shall be directors, officers, partners or employees of a Participant or an Access Person of the marketplace or former directors, officers, partners or employees of a Participant or an Access Person.

(3) A committee of the Board comprised solely of independent members of the Board shall:

(a) review each person nominated for membership on the Hearing Committee and in such review shall consider general knowledge of business practices and securities legislation, experience, regulatory background, availability for hearings, reputation, ability to conduct hearings in either French or English, jurisdictions in which the person would be entitled to serve; and

(b) appoint to the Hearing Committee those persons which it considers to be suitable.

(4) Each person appointed to the Hearing Committee shall serve for a term of three years from the date of their appointment provided that, if the person is serving on a Hearing Panel at the expiration of the three-year term, the term of that person shall be automatically extended until the completion of the proceeding then before the Hearing Panel.

(5) If the Market Regulator ceases to be the regulation service provider for a marketplace every member of the Hearing Committee nominated by that

marketplace shall be automatically removed from the Hearing Committee effective as of the date that the Market Regulator ceased to be the regulation service provider for the marketplace provided that, if the person is serving on a Hearing Panel on that date, the term of that person shall be automatically extended until the completion of the proceeding then before the Hearing Panel.

10.2 Selection of Hearing Panel

(1) Upon the issuance of a Notice of Hearing, the Secretary shall select a Hearing Panel from the members of the Hearing Committee for the jurisdiction in which the hearing will be held comprised of:

(a) one member of the Hearing Committee who is or was a member of the Law Society for that jurisdiction and this person shall act as chair of the Hearing Panel; and

(b) two members of the Hearing Committee, at least one of whom shall be a current or former director, officer, partner or employee of a Participant or an Access Person.

(2) If any member of a Hearing Panel is unable to continue to be a member of the Hearing Panel in accordance with subsection 7.2(2), the Secretary shall select a replacement for such person such that the composition of the Hearing Panel shall be as provided in subsection (1).

(3) The Secretary shall not select any person to be a member of a Hearing Panel who is precluded from acting in such capacity by reason of:

(a) subsection (2) of Rule 10.6;

(b) subsection 7.2(2) of this Policy;

(c) any statutory requirement applicable to the jurisdiction in which the hearing will be held; or

(d) any requirement in the recognition order or registration under applicable securities legislation of the relevant marketplace.