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Table of Contents

Chapter 1 Notices / News Releases 1459
1.1 Notices 1459
1.1.1 OSC Staff Notice 81-729 – 2015 Summary Report for Investment Fund and Structured Product Issuers 1459
1.1.2 OSC Staff Notice 51-726 – Report on Staff's Review of Insider Reporting and User Guides for Insiders and Issuers 1461
1.1.3 Notice of Ministerial Approval of NI 24-102 Clearing Agency Requirements 1463
1.2 Notices of Hearing 1464
1.2.1 Welcome Place Inc. et al. – ss. 127(1), 127(2), 127.1 1464
1.3 Notices of Hearing with Related Statements of Allegations ..... (nil)
1.4 News Releases ..... (nil)
1.5 Notices from the Office of the Secretary 1465
1.5.1 Daniel William Yanaky 1465
1.5.2 Weizhen Tang 1465
1.5.3 CI Investments Inc. 1466
1.5.4 Welcome Place Inc. et al. 1466
1.5.5 Welcome Place Inc. et al. 1467
1.5.6 Majestic Supply Co. Inc. et al. 1467
1.6 Notices from the Office of the Secretary with Related Statements of Allegations ..... (nil)

Chapter 2 Decisions, Orders and Rulings 1469
2.1 Decisions 1469
2.1.1 Andylan Capital Strategies Ltd. et al. 1469
2.1.2 Genterra Capital Inc. – s. 144 1471
2.1.3 Front Street Capital 2004 1473
2.1.4 Citadel Securities LLC 1475
2.2 Orders 1478
2.2.1 Daniel William Yanaky 1478
2.2.2 Weizhen Tang – ss. 127(1), 127(10) 1479
2.2.3 Immunall Science Inc. – s. 144 1482
2.2.4 Welcome Place Inc. et al. – s. 127 1485
2.2.5 Andrew Peller Limited – s. 104(2)(c) 1488
2.2.6 Authorization Order – s. 3.5(3) 1491
2.2.7 Majestic Supply Co. Inc. et al. – s. 127 1492
2.3 Orders with Related Settlement Agreements 1494
2.3.1 CI Investments Inc. – ss. 127(1), 127(2), 127.1 1494
2.3.2 Welcome Place Inc. et al. – ss. 127(1), 127(2), 127.1 1507
2.4 Rulings ..... (nil)

Chapter 3 Reasons: Decisions, Orders and Rulings 1521
3.1 OSC Decisions 1521
3.1.1 Majestic Supply Co. Inc. et al. – s. 127 1521
3.2 Director's Decisions ..... (nil)
3.3 Court Decisions ..... (nil)

Chapter 4 Cease Trading Orders 1529
4.1.1 Temporary, Permanent & Rescinding Issuer Cease Trading Orders 1529
4.2.1 Temporary, Permanent & Rescinding Management Cease Trading Orders 1529
4.2.2 Outstanding Management & Insider Cease Trading Orders 1529

Chapter 5 Rules and Policies 1531
5.1.1 NI 24-102 Clearing Agency Requirements, Forms and Companion Policy 1531

Chapter 6 Request for Comments ..... (nil)

Chapter 7 Insider Reporting 1575

Chapter 9 Legislation ..... (nil)

Chapter 11 IPOs, New Issues and Secondary Financings 1657

Chapter 12 Registrations 1663
12.1.1 Registrants 1663

Chapter 13 SROs, Marketplaces, Clearing Agencies and Trade Repositories ..... (nil)
13.1 SROs ..... (nil)
13.2 Marketplaces ..... (nil)
13.3 Clearing Agencies ..... (nil)
13.4 Trade Repositories ..... (nil)

Chapter 25 Other Information ..... (nil)

Index 1665

Chapter 1

Notices / News Releases

1.1 Notices

1.1.1 OSC Staff Notice 81-729 – 2015 Summary Report for Investment Fund and Structured Product Issuers

OSC Staff Notice 81-729 – 2015 Summary Report for Investment Fund and Structured Product Issuers is reproduced on the following internally numbered pages. Bulletin pagination resumes at the end of the Staff Notice.

2015 - Summary Report for Investment Fund and Structured Product Issuers

Investment Funds & Structured Products Branch

February 17, 2016

OSC ONTARIO SECURITIES COMMISSION

Table of Contents

Introduction **1**

1. Key Policy Initiatives **5**

1.1 Mutual Fund Fees 5
1.2 Point of Sale Project – Pre-Sale Delivery for Mutual Funds, Summary Disclosure for ETFs and Risk Classification Methodology 6
1.3 Accredited Investor Exemption for Investment Funds 8
1.4 Modernization of Investment Fund Product Regulation 8

2. Emerging Issues and Trends **10**

2.1 Update on Structured Note Offerings 10
2.2 Past Performance Presentation in the Fund Facts 10
2.3 Investment Funds that Track an Index 11

3. Disclosure and Compliance Reviews **13**

3.1 Continuous Disclosure Reviews 13
3.2 Compliance and Registrant Regulation Branch Reviews of Investment Fund Managers 16

4. Outreach, Consultation and Education **19**

4.1 Investment Funds Product Advisory Committee (IFPAC) 20
4.2 The Investment Funds Practitioner 20
4.3 International Organization of Securities Commissions - Committee 5 - Investment Management (IOSCO C5) 21

5. Feedback and Contact Information **23**

Introduction

OSC ONTARIO SECURITIES COMMISSION

Introduction

Our annual Summary Report for Investment Fund and Structured Product Issuers provides an overview of the key activities and initiatives of the Ontario Securities Commission for 2015 that impact investment fund and structured product issuers and the fund industry, including:

- key policy initiatives,
- emerging issues and trends,
- continuous disclosure and compliance reviews, and
- recent developments in staff practices.

This report provides information about the status of some of the initiatives the OSC is undertaking to promote clear and concise disclosure in order to assist investors in making more informed investment decisions, as well as our work to examine the effect of mutual fund compensation models on advisor behaviour. It also highlights recent product and market developments, and our regulatory response to them, to assist the investment management industry in understanding and complying with regulatory requirements.

The OSC is responsible for overseeing approximately 3900 publicly-offered investment funds. Ontario-based publicly-offered investment funds hold approximately 80% of the over $1.3 trillion in publicly-offered investment fund assets in Canada.

We administer the regulatory framework for investment funds, including:

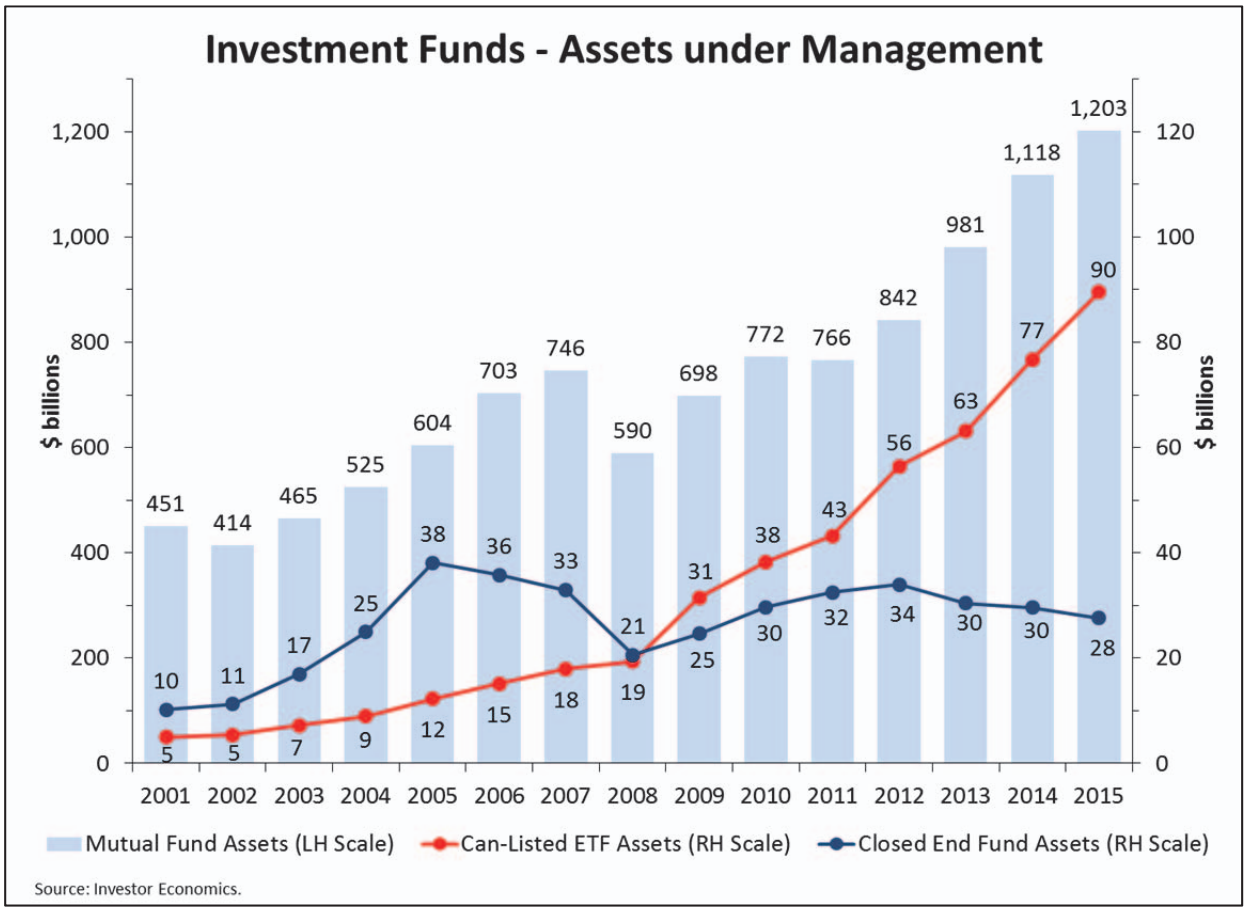
- reviewing and assessing product disclosure for all types of investment funds, including prospectuses and continuous disclosure filings,
- considering applications for discretionary relief from securities legislation and rules, and
- taking a leadership role in developing new rules and policies to adapt to changes in the investment fund industry.

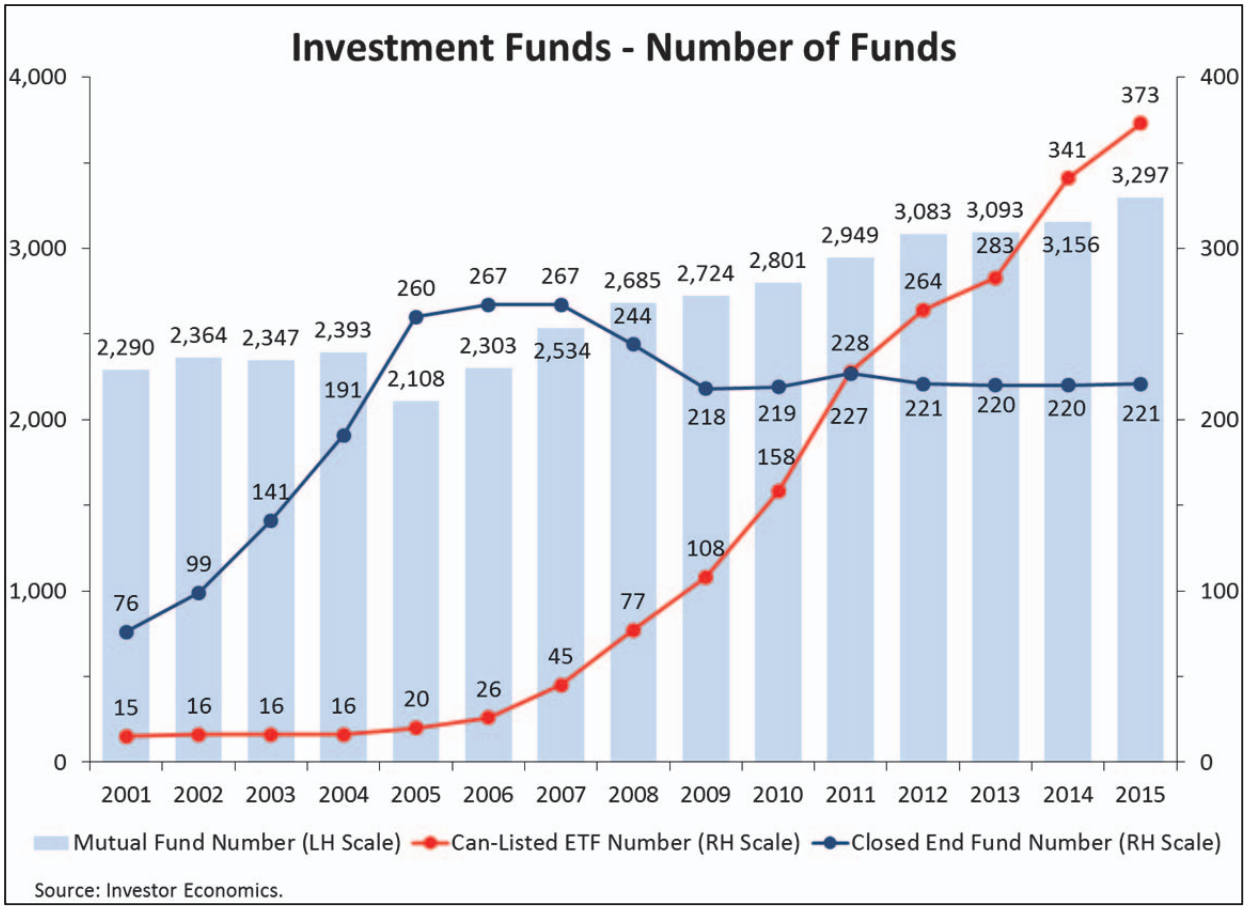
We also monitor and participate in investment fund regulatory developments globally, primarily through our work with the International Organization of Securities Commissions (IOSCO). OSC staff participation on the IOSCO C5 Investment Management Committee informs our operational and policy work. In this report, we highlight some of the recent work by IOSCO C5 that we think are of interest to investment fund issuers.

The investment products we oversee include both conventional mutual funds and non-conventional investment funds, as well as structured notes. Non-conventional funds include

non-redeemable investment funds such as closed-end funds, open-end mutual funds listed and posted for trading on a stock exchange (ETFs), commodity pools, scholarship plans, labour-sponsored or venture capital funds and flow-through limited partnerships. We discuss the different types of funds on our website at www.osc.gov.on.ca Investment Funds - Fund Operations.

The ETF market continued to grow in 2015. As at the end of December 2015, there were 373 ETFs in Canada with assets of $90 billion. In comparison, as at December 2014, there were 341 ETFs with assets of $77 billion, representing an increase in assets of 17%. Over the same period, conventional fund assets increased by approximately $85 billion, or 8%. Total conventional mutual fund assets stood at approximately $1.2 trillion at the end of 2015. As at December 2015, closed-end fund assets totalled $27.6 billion, having declined by approximately 7% from December 2014.





As these and other investment and structured products increase in number, and as the use of ETFs by retail investors continues to grow, the OSC will continue to assess and respond to product developments and innovations with a view to promoting investor protection and improving the consistency of the regulatory treatment of different investment fund and structured products.

1. Key Policy Initiatives

1.1 Mutual Fund Fees

1.2 Point of Sale Project – Pre-Sale Delivery for Mutual Funds, Summary Disclosure for ETFs and Risk Classification Methodology

1.3 Accredited Investor Exemption for Investment Funds

1.4 Modernization of Investment Fund Product Regulation

1. Key Policy Initiatives

The OSC has a leading role in several significant policy initiatives being undertaken with other securities regulators in Canada through the Canadian Securities Administrators (the CSA). This section reports on the status of key policy initiatives, including:

- mutual fund fees,
- pre-sale delivery for mutual funds, summary disclosure for ETFs and risk classification methodology,
- accredited investor exemption for investment funds, and
- modernization of investment fund product regulation.

1.1 Mutual Fund Fees

To advance a policy decision on mutual fund fees, and as part of a broader effort to make evidence-based policy, the CSA commissioned two pieces of independent third party research, which were completed and published in 2015. They consist of:

- a literature review entitled "Mutual Fund Fee Report" (Brondesbury Report) conducted by the Brondesbury Group and published on June 11, 2015. This report evaluates the extent to which the use of fee-based versus commission-based compensation changes the nature of advice and impacts investment outcomes over the long term, and
- an empirical study entitled "A Dissection of Mutual Fund Fees, Flows, and Performance" (Cumming Report) conducted by Professor Douglas J. Cumming and published on October 22, 2015. This report evaluates the extent to which sales and trailing commissions influence fund sales using data sourced directly from Canadian fund managers.

The Brondesbury Report concludes that while commission-based compensation is sufficiently problematic to justify the development of new compensation policies, based on the literature reviewed, there is insufficient evidence to support a conclusion that investors would achieve better long-term outcomes under a fee-based model. The Brondesbury Report cautions that while fee-based compensation is likely a better alternative, it is not a behaviourally-neutral form of compensation. Other forms of inducements that influence advice, such as bonuses or the potential for promotion at the dealer firm, and affiliation between a fund manager and a dealer firm, would likely persist under a fee-based model, which may lessen the benefits of moving to such a model. The Brondesbury Report also finds that investor behavioural biases are an important factor in sub-optimal returns on investment and that these biases are unlikely to be overcome as a result of changing compensation schemes alone, although it is possible they can be moderated.

The findings of the Cumming Report are based on an analysis of detailed data on mutual fund fees, flows and performance obtained under a data request the CSA sent in November 2014 to 113 fund managers of conventional mutual funds in Canada. Of those contacted, 43 fund managers managing approximately 67% of mutual fund assets and 51.5% of fund-of-fund assets in Canada voluntarily provided the data requested. The data sample collected comprised more than one million monthly observations on fees, flows and performance. The Cumming Report finds that mutual funds that perform better attract more sales, but this effect is less strong when fund managers: (i) pay trailing commissions to dealer firms – these commissions increase new flows regardless of the fund's past performance, and (ii) distribute their mutual funds through affiliated dealers – in this case, the fund manager's ownership of the fund shelf appears to be the primary driver of sales. The Cumming Report also finds that higher trailing commissions and high affiliated dealer flow negatively affect future outperformance.

The findings from the Brondesbury Report and the Cumming Report, together with the comments gathered from industry stakeholders and investor advocates throughout the CSA's consultation process on mutual fund fees, will be key inputs to CSA staff deliberations on policy recommendations. The CSA expects to communicate its policy direction on mutual fund fees in the first half of 2016.

1.2 Point of Sale Project – Pre-Sale Delivery for Mutual Funds, Summary Disclosure for ETFs and Risk Classification Methodology

(i) Pre-sale delivery of fund facts document

Stage 3 of the Point of Sale (POS) Project was completed in December 2014 with the publication of rule amendments to require the pre-sale delivery of the fund facts document (Fund Facts) for mutual funds. Currently, dealers are required to deliver the Fund Facts within two days of buying a mutual fund. Effective May 30, 2016, dealers will be required to deliver the Fund Facts to a purchaser before accepting an instruction for the purchase of a mutual fund, with the prospectus continuing to be available to investors upon request.

(ii) Summary disclosure document for ETFs

On June 18, 2015, the CSA published proposed rule amendments that will require ETFs to produce and file a summary disclosure document called "ETF Facts", and make it available on the ETF's or the ETF manager's website. The proposed rules also introduce a new delivery requirement that will require dealers to deliver an ETF Facts to investors within two days of a purchase, including secondary market purchases. Delivery of the ETF's prospectus will not be required, but the prospectus will continue to be filed with regulators and made available at no cost to investors upon request.

The proposed ETF Facts is based on the Fund Facts, however, it contemplates information specific to the attributes of an ETF, including trading and pricing information. The introduction of the ETF Facts will help investors access key information about an ETF in language they can easily understand. Furthermore, the new delivery regime for ETF Facts will ensure that all ETF investors receive the same disclosure, regardless of whether they purchased ETF securities under a distribution. It will also create a more consistent disclosure framework between conventional mutual funds and ETFs, two comparable products sold to retail investors.

We received 20 comment letters during the 90 day comment period for the proposed rules that ended on September 16, 2015. Staff are currently considering the feedback received from the comment letters.

(iii) CSA risk classification methodology

We continued work on proposed rule amendments for a CSA risk classification methodology (the Proposed Methodology) for use in the Fund Facts and the ETF Facts. The Proposed Methodology will be used to determine the risk rating of a conventional mutual fund and an ETF on the risk scale prescribed in the Fund Facts and for the proposed ETF Facts, respectively.

Currently, fund managers determine the risk rating of a conventional mutual fund using a risk classification methodology selected at their discretion. The Proposed Methodology responds to stakeholder comments we received throughout the POS Project that a standardized risk classification methodology is necessary to ensure greater consistency and improved comparability in the risk ratings of mutual funds. The Proposed Methodology was informed by stakeholder feedback received in an earlier consultation published in CSA Notice 81-324 and Request for Comments *Proposed CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts* on December 12, 2013. As part of the consultation, we asked stakeholders whether the Proposed Methodology should be used for other types of publicly-offered investment funds, such as ETFs, in documents similar to the Fund Facts. Based on the feedback received, staff determined that the Proposed Methodology should also be used to determine the risk ratings of ETFs in the proposed ETF Facts. A summary of the key themes of the comments received from the consultation was published in CSA Staff Notice 81-325 *Status Report on Consultation under CSA Notice 81-324 and Request for Comment on Proposed CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts* on January 29, 2015.

On December 10, 2015, staff published proposed rule amendments relating to the Proposed Methodology for first comment. The 90 day comment period ends March 9, 2016.

1.3 Accredited Investor Exemption for Investment Funds

As part of the OSC and CSA's exempt market initiative, we amended the accredited investor exemption to permit fully managed accounts, where the advisor has a fiduciary relationship with the investor, to purchase any securities on an exempt basis, including investment fund securities. Previously, in Ontario, investment funds were carved out of the managed account category of the accredited investor exemption. Removing the carve-out harmonized the managed account category of the accredited investor exemption in all Canadian jurisdictions. This amendment came into effect on May 5, 2015.

1.4 Modernization of Investment Fund Product Regulation

During the year, work continued on the final stage of the CSA's project to modernize investment fund product regulation (the Modernization Project). This final stage focuses on creating a comprehensive framework for funds that use alternative strategies, which we refer to as "alternative funds". We are also considering whether congruent amendments to the current rules applicable to investment fund strategies are needed.

On February 12, 2015, the CSA published CSA Staff Notice 81-326 *Update on an Alternative Funds Framework for Investment Funds* to provide an update on the status of the project and to outline the proposed next steps in the project. The Notice also summarizes key themes from public comments provided in response to a request for feedback on a proposal for an alternative funds framework published in the prior stage of the Modernization Project.

Throughout 2015, the CSA engaged in consultations with various stakeholders regarding the key themes from commenters. Based on the feedback received, we have begun to draft proposed amendments to the applicable National Instruments for an alternative funds regime, with a view to publishing the amendments for public comment in mid-2016.

2. Emerging Issues and Trends

2.1 Update on Structured Note Offerings
2.2 Past Performance Presentation in the Fund Facts
2.3 Investment Funds that Track an Index

OSC ONTARIO SECURITIES COMMISSION

2. Emerging Issues and Trends

2.1 Update on Structured Note Offerings

We review and monitor structured note pricing supplements filed under National Instrument 44-102 *Shelf Distributions*. As part of our monitoring of the structured products market, we are in the process of collecting market data about structured notes from their issuers. The data will provide us with aggregate market size information, aggregate fund flows, and the key features of each structured note issued. The data will be updated quarterly, giving us timely market information to improve our ability to detect market trends at an early stage.

In January 2015, the CSA published CSA Staff Notice 44-305 *Structured Notes Distributed under the Shelf Prospectus System* (SN 44-305). SN 44-305 covered topics including:

- disclosure of the issuer's estimate of the note's fair value, with a view to improving transparency regarding the estimated profit embedded in the note,
- on-going disclosure that issuers should consider providing to investors,
- our views regarding the use of investment funds and managed portfolios as reference assets, and
- the process for filing structured note pricing supplements.

During 2015, we received numerous questions regarding the topics covered in SN 44-305. In the upcoming year, we intend to publish OSC staff responses to frequently occurring questions to provide guidance to the industry.

We will continue to consider whether gaps may exist under our current regulatory approach to structured notes and whether more formal regulatory requirements may be necessary to ensure we are regulating similar products in a consistent way to achieve investor protection and promote fair and efficient capital markets.

2.2 Past Performance Presentation in the Fund Facts

Mutual funds are required to provide disclosure of past performance in the Fund Facts under the "How has this fund performed?" section. The Fund Facts requires the presentation of a year-by year return chart, a best and worst 3-month return chart, and the average annual return for a mutual fund. In the course of our prospectus reviews, we have noticed certain scenarios that are not contemplated by the Fund Facts form requirements, which could lead to inconsistent or unclear disclosure.

The Fund Facts is required to be prepared for each class or series of a mutual fund. We have encountered situations where certain classes or series of a fund had periods during which no securities were outstanding. In such circumstances, it may not be possible to show performance for a complete calendar year or to calculate an average annual return, since there are periods during which the class or series did not have any assets (asset gaps).

To maximize the utility of the Fund Facts for investors, staff have been requesting that fund managers consider alternative approaches to the presentation of past performance in situations where a class or series of a mutual fund experienced asset gaps. In response, some fund managers have used the performance record of another class or series of the mutual fund as a proxy for the missing performance information. When selecting the proxy class or series, staff have indicated that the fund manager should ensure that the fees are not lower than those of the class or series with the asset gap. In addition, the proxy class or series should not have any special features that would result in a material difference in performance, such as currency hedging. As well, staff expect that the Fund Facts include a notation indicating that the performance of a proxy class or series has been presented. We will continue to provide guidance on performance presentation in the Fund Facts as necessary.

2.3 Investment Funds that Track an Index

During 2015, we saw an increasing trend in offerings of investment funds whose investment objectives are to replicate the performance of an index, and whose name includes the word "index" (Index Tracking Funds). Issuers used the term “index” to refer to various types of strategies, including tracking proprietary portfolios that are actively managed by an investment advisor.

On July 9, 2015, we published OSC Staff Notice 81-728 *Use of “Index” in Investment Fund Names and Objectives* to provide guidance on our views of the characteristics that an “index” should possess. Staff’s view is that a fund that seeks to replicate the performance of an identified index is generally considered to be pursuing a passive investment strategy. In staff's view, the index whose performance an Index Tracking Fund is aiming to replicate (i) should not involve material discretion in the administration of the index, and (ii) should be transparent to assist investors in understanding the investment exposure provided by the index. Staff also indicated that if the index is not transparent or if the selection of the index constituents involved material discretion, we would require that the term “index” be removed from the fund name and its objectives. We will continue to monitor the use of the term “index” as we see more offerings of Index Tracking Funds, and provide additional guidance if necessary.

3. Disclosure and Compliance Reviews

3.1 Continuous Disclosure Reviews

3.1.1 *Mutual Fund Portfolio Liquidity*

3.1.2 *Active Management of Mutual Funds*

3.1.3 *Fund-of-Funds Fees Disclosure*

3.1.4 *ETF Portfolio Transparency*

3.1.5 *Reliance on Proxy Advisory Firms*

3.1.6 *IFRS*

3.2 Compliance and Registrant Regulation Branch Reviews of Investment Fund Managers

3. Disclosure and Compliance Reviews

The OSC reviews the prospectus and continuous disclosure filings of Ontario-based investment funds. We select investment funds for reviews of their disclosure documents using risk-based criteria. Staff may also choose to conduct targeted reviews of a particular industry segment or on a particular topic. For prospectus reviews, staff continue to focus on three areas: disclosure relating to different classes or series offered by investment funds; fees and expenses; and investment objectives and strategies. Further details on this can be found in the July 2015 issue of the Investment Funds Practitioner.

In addition to prospectus and continuous disclosure reviews, the Investment Funds and Structured Products Branch works closely with the Compliance and Registrant Regulation (CRR) Branch on issues related to investment fund manager compliance and identifying possible emerging issues. Joint reviews by the two Branches are conducted as necessary.

3.1 Continuous Disclosure Reviews

This section discusses some of our reviews and findings in connection with:

- mutual fund portfolio liquidity,
- active management of mutual funds,
- fund-of-funds fees disclosure,
- ETF portfolio transparency,
- reliance on proxy advisory firms, and
- IFRS.

3.1.1 *Mutual Fund Portfolio Liquidity*

In 2015, staff completed a series of targeted reviews focused on mutual fund practices relating to (i) liquidity assessments of fund holdings, (ii) liquidity stress testing, and (iii) liquidity valuation considerations. We focused on funds that invest in asset classes that were considered to be more susceptible to liquidity concerns, including high yield debt funds, emerging market funds and small capitalization equity funds. On June 25, 2015, we published OSC Staff Notice 81-727 *Report on Staff's Continuous Disclosure Review of Mutual Fund Practices Relating to Portfolio Liquidity* to summarize our findings and provide related guidance to fund managers.

Staff's recommendations to fund managers included:

- having robust policies and procedures on liquidity assessments at the time of purchase of an investment and on an on-going basis, with assessments that are based on objective and relevant metrics,
- having written stress testing policies and procedures in place at the time of purchase of an investment and on an on-going basis, including using scenario analysis that incorporate redemption rates that exceed past redemption experience, and
- using valuation procedures that take into account the market conditions for the portfolio asset.

We continue to monitor developments in this area, including the proposed liquidity management rules for mutual funds and ETFs that were published for comment by the U.S. Securities and Exchange Commission in September 2015. We will publish additional guidance as needed.

3.1.2 *Active Management of Mutual Funds*

We commenced a targeted review of conventional mutual funds that disclose in their prospectus and marketing materials that they pursue active management strategies. Our review examined whether the funds are actively managed or whether they exhibit a close tracking of their benchmark index (often referred to as "closet indexation").

Among other data, we considered the funds' active share (a measure of the percentage of a fund's portfolio holdings that differs from the composition of its benchmark index) to assess the extent of active management. We have written to selected managers of Canadian equity funds to obtain a better understanding of their investment strategies and the reasons why the strategies resulted in investment portfolios that overlap significantly with the composition of their benchmark index. We have received responses and are in the process of reviewing and requesting additional information, including whether the securities selection process for the funds is affected by the managers' evaluation of their funds' performance relative to their benchmark index.

3.1.3 *Fund-of-Funds Fees Disclosure*

During the year, we conducted a review that focused on the disclosure of fees and expenses in fund-of-funds structures. The objectives of the review are to ensure that the layering of fees in fund-of funds structures is fully transparent and that the calculation of the management expense ratio (MER) and trading expense ratio (TER) includes the expenses of underlying funds in compliance with National Instrument 81-106 *Investment*

Fund Continuous Disclosure (NI 81-106). Our review included both public and private funds.

In our review, we:

- asked how the funds comply with the MER and TER calculation requirements mandated in NI 81-106 for fund-of-funds structures,
- sought information about the fund manager's policies and procedures to verify that there is no duplication of fees by investing in underlying funds, and
- reviewed offering documents and continuous disclosure documents to ensure that the disclosure about the fees and expenses associated with an investment in the underlying funds is clear.

Based on the preliminary responses received, staff have identified errors in the calculation of the MER and TER by a few fund managers of publicly-offered funds; in particular, the MERs and TERs did not include the expenses of the underlying funds, resulting in a refiling of the management reports of fund performance to correct these ratios. We have expanded the review to encompass more fund managers, and will consider publishing guidance when our review is completed.

3.1.4 *ETF Portfolio Transparency*

Staff commenced a review of the practices of ETF managers with respect to the disclosure of their ETFs' portfolio holdings and other information that is provided daily for the purpose of subscribing for and redeeming securities of their ETFs. We understand that ETF managers have varying practices for providing this information and we would like to understand the reasons for the differences. We have written to each Ontario-based ETF manager to gather information, and are reviewing their responses.

3.1.5 *Reliance on Proxy Advisory Firms*

On April 30, 2015, the CSA published National Policy 25-201 *Guidance for Proxy Advisory Firms*. Related to this, staff are reviewing the reliance of fund managers on proxy advisory firms in voting the portfolio securities of the investment funds that they manage. We have written to a sample of fund managers that manage conventional mutual funds and ETFs to request information regarding their use of proxy advisory firms, including:

- information regarding the fund manager's use of proxy advisory firms and the due diligence conducted before subscribing for the firms' reports (Advisory Reports),

- information regarding the process for identifying any conflicts of interest that a proxy advisory firm may have in respect of a particular matter to be voted upon, and the fund manager's process when such conflicts are identified,
- a copy of the proxy voting guidelines that the funds follow when voting shares of investee companies, and
- information regarding steps taken when the fund manager learns that an Advisory Report to which it subscribes contains factual errors or inaccuracies, or has been updated to reflect new publicly available information.

Staff are currently reviewing the responses received and will consider whether guidance in this area is necessary.

3.1.6 *IFRS*

Investment funds that are subject to NI 81-106 were required to adopt International Financial Reporting Standards (IFRS) for financial years beginning on or after January 1, 2014. In 2014, we conducted an issue-oriented review of interim financial reports for the period ended June 30, 2014, being the first IFRS financial statements that were required to be filed. Our review focused on the transition requirements set out in IFRS and in NI 81-106. In 2014–15, we issued four IFRS Releases to provide feedback to the industry on the outcome of the reviews and to provide guidance to investment funds that had not yet filed their first IFRS financial statements.

In 2015, we expanded our review by examining a sample of the IFRS audited annual financial statements for investment funds with a financial year ended March 31, 2015. The results of our 2015 review are summarized in the December 2015 edition of the Investment Funds Practitioner.

As we did not identify any widespread issues in the IFRS audited financial statements and related management reports of fund performance, we will not extend our review of compliance with the transition to IFRS.

3.2 Compliance and Registrant Regulation Branch Reviews of Investment Fund Managers

In September 2015, staff of the CRR Branch published OSC Staff Notice 33-746 *Annual Summary Report for Dealers, Advisers and Investment Fund Managers*. This Notice summarizes new and proposed rules and initiatives impacting registrants, current trends in deficiencies from compliance reviews of registrants (as well as suggested practices to address the deficiencies and inappropriate practices to prevent them), and current trends in registration matters.

Section 4.4 of the Notice contains information specifically for fund managers derived from the reviews carried out by the CRR Branch. Topics covered in this section include:

- repeat common deficiencies, including inappropriate expenses charged to funds, inadequate oversight of outsourced functions and service providers, and non-delivery of net asset value adjustments,
- non-compliance by fund managers of private investment funds of the prohibition on commingling fund assets with assets of the fund manager,
- non-compliance of the inter-fund trading prohibition for private investment funds, and
- new and proposed rules and initiatives impacting fund managers.

We encourage fund managers to consider the issues and guidance in the Notice.

4. Outreach, Consultation and Education

4.1 Investment Funds Product Advisory Committee (IFPAC)

4.2 The Investment Funds Practitioner

4.3 International Organization of Securities Commissions - Committee 5 – Investment Management (IOSCO C5)

4. Outreach, Consultation and Education

We continue our efforts to be transparent regarding practices and procedures that impact investment fund issuers in as timely a manner as possible. Our intent in doing so is to better enable fund managers and their advisors to address potential regulatory issues when they are at the planning stage for a new fund or transaction. As indicated in this report, we publish guidance and updates for the investment fund industry periodically.

We engage in periodic discussions with other regulators such as the Mutual Fund Dealers Association of Canada and the Investment Industry Regulatory Organization of Canada. Additionally, on an on-going basis, we seek input from the OSC's Investment Funds Product Advisory Committee (see below) and Investor Advisory Panel, as well as other industry and investor organizations and stakeholders.

As in past years, we met with staff from the Investment Management and Derivatives divisions of the U.S. Securities and Exchange Commission to discuss investment fund trends, novel products and emerging issues that are common to our respective jurisdictions. These meetings help ensure that our regulatory approaches to product development are consistent and that opportunities for regulatory arbitrage between our markets are minimized.

To facilitate effective national oversight of the investment fund industry, the CSA's Investment Funds Committee holds monthly conference calls. The Committee consists of representatives from other securities regulators in Canada. It provides a forum for discussing novel applications and products, policy interpretation and initiatives, and operational matters in a timely fashion. The discussions help promote the consistent, fair and effective application of regulatory requirements under the Passport system. Darren McKall of the OSC is currently Chair of the Committee.

The OSC website provides tools and resources for investors to learn about investments and investing. We worked with the Office of Investor Policy, Education and Outreach (OIPEO) to publish Investing 101: Structured Notes on February 23, 2015. This investor news piece highlights key features that investors should consider before making an investment in structured notes. As well, we worked with the OIPEO to publish Investing 101: Indices and Index Funds on July 27, 2015. This investor news piece explains what an index is and how index funds work, including key features investors should be aware of before purchasing an index fund.

4.1 Investment Funds Product Advisory Committee (IFPAC)

The OSC's IFPAC was established in August 2011. The IFPAC, which currently comprises 12 external members, advises staff on emerging product developments and innovations occurring in the investment fund industry. The IFPAC also acts as a source of feedback to staff on the development of policy to promote investor protection, fairness and market efficiency across all types of investment fund products. The IFPAC typically meets quarterly and members serve a two year term. When the current two year term expired in spring 2015, six members returned and six new members joined. A list of current IFPAC members can be found on the OSC website.

Topics of discussion with the IFPAC in 2015 included: the ETF market and trends; retail risk rating perspectives; OSC Staff Consultation Paper 15-401 *Proposed Framework for an OSC Whistleblower Program*; indexing methodologies; and the Brondesbury Report (referred to under "Key Policy Initiatives – Mutual Fund Fees" in this Report). At the first meeting of the reconstituted committee, the IFPAC also discussed an overview of our current branch policy initiatives, including the project to modernize investment fund product regulation, the mutual fund fees initiative and the POS Project.

4.2 The Investment Funds Practitioner

The Investment Funds Practitioner is an overview of topical issues arising from applications for discretionary relief, prospectuses and continuous disclosure documents that are reviewed by the Investment Funds and Structured Products Branch. This publication is intended to assist fund managers and their advisors who prepare public disclosure documents and applications for discretionary relief on behalf of investment funds. The Practitioner is also intended to make fund managers more broadly aware of some of the issues we have raised in connection with our reviews and how we have resolved them. We encourage fund managers and their advisors to review the Practitioner and welcome suggestions for future topics.

We published three editions of the Investment Funds Practitioner in 2015, in April, July and December. These editions, and prior editions, can be found on our website www.osc.gov.on.ca at Information for Investment Funds. A Table of Contents for all of the editions of the Practitioner is available on the OSC website. The Table of Contents is organized by topic and can be used as a quick reference guide for locating topics discussed in the Practitioners published.

4.3 International Organization of Securities Commissions - Committee 5 - Investment Management (IOSCO C5)

We continued to participate in IOSCO C5 during 2015. This committee is focused on investment management issues and comprises representatives from 31 regulators. The international developments and priorities discussed at C5 inform our policy and operational work, which is also guided by the principles and best practices published by IOSCO.

During the year, IOSCO C5 published its final report on good practices on reducing reliance on credit rating agencies in asset management, which provides a set of recommended practices for reducing over-reliance on external credit ratings in the asset management industry. IOSCO C5 also published its final report on standards for the custody of collective investment schemes' assets to clarify, modernize and develop international guidance in this area.

Current IOSCO C5 initiatives include conducting consultations on fees and expenses of investment funds to update prior IOSCO work in this area, and consultations on best practices for the voluntary termination of an investment fund, including fund mergers and reorganizations. In 2015, we also participated in IOSCO C5's survey on the tools available to collective investment schemes to manage liquidity risks. The committee published its report based on responses from 26 member jurisdictions in December 2015.

In March 2015, IOSCO, together with the Financial Stability Board, published for a second consultation proposed methodologies for the identification of systemically-important asset management entities. However, in June 2015, the IOSCO Board determined that a full review of asset management activities and products in the broader global financial context should be the immediate focus of international efforts to identify potential systemic risks and vulnerabilities. The Board was of the view that this review should be completed prior to undertaking any further work on methodologies for the identification of such entities. Since that time, IOSCO C5 has been engaged in this review.

5. Feedback and Contact Information

5. Feedback and Contact Information

If you have any feedback or questions regarding our annual summary report, please send them to <investmentfunds@osc.gov.on.ca>.

You can find additional information regarding investment funds and the Investment Funds and Structured Products Branch on the OSC website.

We have also attached a list of Investment Funds and Structured Products Branch staff at the end of this report.

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1.1.2 OSC Staff Notice 51-726 – Report on Staff's Review of Insider Reporting and User Guides for Insiders and Issuers

OSC Staff Notice 51-726 – *Report on Staff's Review of Insider Reporting and User Guides for Insiders and Issuers* is reproduced on the following internally numbered pages. Bulletin pagination resumes at the end of the Staff Notice.

OSC Staff Notice 51-726

Report on Staff's Review of Insider Reporting and User Guides for Insiders and Issuers

February 18, 2016

OSC ONTARIO SECURITIES COMMISSION

Table of Contents

1. Introduction 2

2. Background 3

3. Regulatory Requirements and Guidance 3

National Instrument 55-104 3
National Instrument 55-102 4
National Policy 51-201 4
Additional Guidance 4

4. Review Objectives 4

5. Review Scope 5

6. Findings 6

Improvement in the Quality of Insider Reporting is Required 6
a) Material deficiencies leading to remedial filings 6
b) Non-material deficiencies leading to correctional filings 8
c) Other common findings 9
Improvement of Insider Trading Policies is Recommended 11

7. Examples 12

8. Conclusion 12

9. Questions 13

APPENDIX A 14

EXAMPLES 14

APPENDIX B 17

USER GUIDE FOR REPORTING INSIDERS 17

APPENDIX C 19

USER GUIDE FOR REPORTING ISSUERS 19

1. Introduction

This notice reports the findings and comments of staff (collectively, **staff** or **we**) of the Ontario Securities Commission (**OSC**) arising from an issue-oriented review of the continuous disclosure (**CD**) records and insider filings of 100 reporting issuers whose principal regulator (**PR**) is Ontario. The purpose of the review was to assess compliance and assist reporting insiders with meeting insider reporting requirements.

The 100 Ontario PR reporting issuers selected for the review resulted in a corresponding review of approximately 1,500 reporting insiders. While approximately 85% of the reporting insiders we reviewed were materially compliant, we found material insider reporting deficiencies[1] in approximately 15% which resulted in approximately 200 reporting insiders filing new insider reports on the System for Electronic Disclosure by Insiders (**SEDI**) to address these deficiencies. Generally, these reporting insiders were charged late filing fees as contemplated in section 10.1(2) of Companion Policy 55-104CP *Insider Reporting Requirements and Exemptions* (**55-104CP**).

The compliance rate for insider reporting can be substantially improved, and this improvement needs to happen across all reporting issuers. We found material insider reporting deficiencies in approximately 70% of the issuers we reviewed. There was minimal correlation between the size of the reporting issuer and the occurrence of material insider reporting deficiencies. Our findings suggest that reporting insiders of issuers of all sizes need to improve the quality of their insider reporting for accuracy, completeness and timeliness.

Reporting insiders of issuers of all sizes need to improve the quality of their insider reporting for accuracy, completeness and timeliness.

To assist issuers and reporting insiders in meeting their reporting obligations, staff strongly recommend that issuers and reporting insiders take note of the guidance provided in this notice including the user guides for reporting insiders and reporting issuers attached as **Appendix B** and **Appendix C**, respectively. We will continue to monitor and review insider reporting as part of our normal course CD review program, with an emphasis on:

- educating issuers and their reporting insiders; and
- identifying reporting insiders who are failing to report and thereby compromising the integrity of our insider reporting regime.

[1] "Material insider reporting deficiency" or "material deficiency" means a compliance deficiency with insider reporting requirements which requires a reporting insider to file one or more new insider reports on SEDI (**remedial filings**) in order to correct the deficiency.

2. Background

The insider reporting requirements serve a number of functions, including deterring improper insider trading based on material undisclosed information and increasing market efficiency by providing investors with information concerning the trading activities of insiders, and, by inference, the insiders' views of the respective issuer's future prospects.

Insider reporting also discourages illegal or otherwise improper activities involving stock options and similar equity-based instruments, including stock option backdating, option repricing and opportunistic timing of grants since the requirement for timely disclosure and public scrutiny of such disclosure will generally limit opportunities for insiders to engage in such improper practices.

When insiders fail to comply with insider reporting requirements, this affects the integrity, reliability and effectiveness of the insider reporting regime, which in turn has a negative impact on market efficiency. As such, it is crucial for investors to have access to reliable trading information of insiders. All instances of inaccurate reporting can negatively impact the insider reporting regime. However, when an insider fails to file any report in connection with a trade in a security, our regime is significantly impacted.

3. Regulatory Requirements and Guidance

The following represents a summary of the key regulatory requirements and guidance on insider reporting.

National Instrument 55-104

In Ontario, the general insider reporting requirements are found in the *Securities Act* (Ontario) (the **Act**). Certain insider reporting requirements in the Act have been varied by National Instrument 55-104 *Insider Reporting Requirements and Exemptions* (**NI 55-104**) which consolidated the principal insider reporting requirements and exemptions available in various Canadian jurisdictions in a single national instrument to make it easier for reporting issuers and reporting insiders to understand their obligations.

Reporting insiders are generally required to file an initial insider report within 10 calendar days of becoming a reporting insider. Any subsequent insider reports reflecting changes in their holdings must be filed within 5 calendar days of such change. "Reporting insider" is defined in NI 55-104, and generally includes persons who have routine access to material undisclosed information concerning a reporting issuer and/or significant influence over the reporting issuer.

National Instrument 55-102

National Instrument 55-102 *System for Electronic Disclosure by Insiders (SEDI)* (**NI 55-102**) sets out the process for filing insider reports. Reporting insiders are required to file insider reports containing securities trading information in electronic format at www.sedi.ca for public dissemination.

National Policy 51-201

National Policy 51-201 *Disclosure Standards* (**NP 51-201**) provides guidance on "best disclosure" practices for issuers to promote good disclosure, enhance their credibility with investors and minimize the risk of non-compliance with securities legislation. As part of the guidance, NP 51-201 includes a provision on insider trading policies and blackout periods.

Additional Guidance

There are numerous Canadian Securities Administrators (**CSA**) and OSC staff notices[2] which remind reporting issuers and their reporting insiders of their filing obligations and provide guidance on the process by which to file their insider reports.

4. Review Objectives

The objectives of our review were as follows:

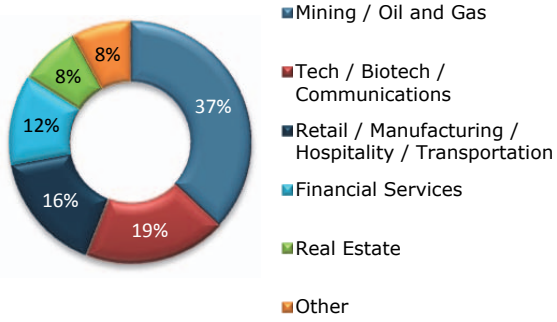
- to assess insider reporting compliance;
- to raise awareness for issuers and insiders on insider filing requirements; and
- to gather information about insider trading policies.

[2] CSA Staff Notice 55-312 *Insider Reporting Guidelines for Certain Derivative Transactions (Equity Monetization)(Revised);* CSA Staff Notice 55-315 *Frequently Asked Questions about National Instrument 55-104 Insider Reporting Requirements and Exemptions;* CSA Staff Notice 55-316 *Questions and Answers on Insider Reporting and the System for Electronic Disclosure by Insiders (SEDI)* (**Staff Notice 55-316**); OSC Staff Notice 55-701 *Automatic Securities Disposition Plans and Automatic Securities Purchase Plans.*

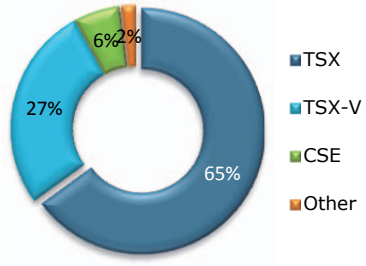
5. Review Scope

For the purpose of this review, we selected 100 reporting issuers whose PR is Ontario. The issuers were randomly selected from across all industries in proportion to the total number of Ontario PR reporting issuers in each industry.[3] Sixty-five percent of the reporting issuers selected for review were non-venture issuers and the remaining 35% were venture issuers.[4] Each selected issuer had, on average, 15 active reporting insiders at the beginning of the review, for a combined total of approximately 1,500 reporting insiders.

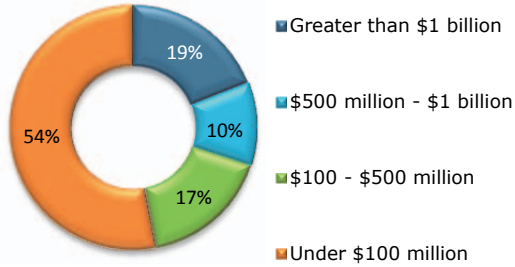
Industry



Exchange



Market Capitalization[5]



We compared the insider information contained in public CD documents of the issuers available on the System for Electronic Document Analysis and Retrieval (**SEDAR**) (including management information circulars, annual information forms, annual financial statements and prospectuses) with the insider information reported on SEDI to identify any discrepancies. We also reviewed insider trading policies requested from issuers to determine whether issuers have developed these policies in accordance with the best practices set out in NP 51-201.

As part of the review, we corresponded with all 100 reporting issuers. In addition, in order to address the matters noted during our review, we corresponded with approximately 530 reporting insiders or their filing agents about the reporting insiders' SEDI filings.

[3] As at March 31, 2015.
[4] "Venture issuer" has the same meaning given to the term in National Instrument 51-102 *Continuous Disclosure Obligations.*
[5] As at March 31, 2015.

6. Findings

Based on our review, we identified two main areas where improvement is needed:

Issues
1. The quality of insider reporting
2. Insider trading policies

Improvement in the Quality of Insider Reporting is Required

We found deficiencies in insider reports filed by reporting insiders of issuers of all sizes which resulted in reporting insiders or issuers, as applicable, having to make either remedial or correctional filings or other amendments on SEDI as described below.

a) Material deficiencies leading to remedial filings

- *We found material insider reporting deficiencies in approximately 15% of the reporting insiders we reviewed, which resulted in approximately 200 reporting insiders making one or more remedial filings on SEDI to address these deficiencies.*
- *In approximately 70% of the issuers reviewed, at least one insider was required to file a remedial filing to address a material deficiency.*

These reporting insiders were generally charged late filing fees as contemplated in 55-104CP.

In general, we found material insider reporting deficiencies where there were:

i. Missing reporting insider profiles

- *Approximately 30% of the issuers had at least one reporting insider that did not have an insider profile and failed to file insider reports on SEDI.*

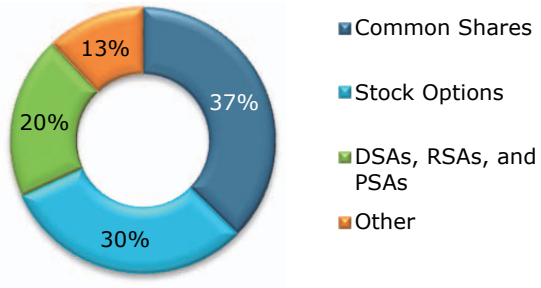
The majority of these reporting insiders were either directors or senior officers of reporting issuers or significant shareholders of reporting issuers. In certain cases, the reporting insiders who failed to file were the issuers themselves (e.g., for acquisitions under a normal course issuer bid (**NCIB**)). In most cases, these reporting insiders failed to report their holdings in the respective issuers' common shares.

ii. Balance discrepancy in SEDI filings vs. CD records

- *Approximately 65% of the issuers had at least one reporting insider that had a variance equal to or greater than 5% between the balances of securities holdings as reported on SEDI versus CD records of the respective issuer.*

The majority of these reporting insiders were directors or senior officers of reporting issuers. The variances were most common for holdings of common shares and stock options, followed by deferred share awards (**DSAs**), restricted share awards (**RSAs**) and performance share awards (**PSAs**) as shown in the chart below.

Balance Discrepancies by Security



Some of the common reasons we noted in our review for the material discrepancies discussed above leading to remedial filings were as follows:

Unfamiliarity with definition of "reporting insider"	Some reporting insiders were not aware that they had reporting obligations under NI 55-104.[6]
Unfamiliarity with definition of "significant shareholder" in NI 55-104	Some reporting insiders were not aware that when an individual holds more than 10% of the outstanding shares of an issuer through a holding company, that holding company is also a "significant shareholder" under NI 55-104, which is required to have its own insider profile and file its own insider reports.[7]
Failure to file reports for acquisitions under a NCIB	Some issuers failed to file insider reports for acquisitions of a security of its own issue under a NCIB in accordance with Part 7 of NI 55-104, which requires issuers to file an insider report disclosing each acquisition under a NCIB within 10 days of the end of the month in which the acquisition was completed.[8]

[6] See definition of "reporting insider" in NI 55-104 and Part 3 of NI 55-104 for primary insider reporting requirements.
[7] See definition of "significant shareholder" in NI 55-104 which includes a person or company that has beneficial ownership of, or control or direction over, whether direct or indirect, securities of an issuer carrying more than 10% of the voting rights attached to all the issuer's outstanding voting securities. In general, there is no reporting exemption available for a holding company that is a significant shareholder and whose share holdings are only reported by the ultimate individual shareholder.
[8] See Part 7 of NI 55-104 and item 4.5.1 of Staff Notice 55-316.

Failure to report expiration of securities	Many insiders failed to report expiration of certain issuer derivative securities such as options or warrants within the required 5 day period.[9]
Late reporting due to issuer delays	Some insiders failed to file insider reports on time because they did not receive certain key information from issuers on a timely basis. In some cases, this was due to the fact that issuers failed to file issuer event reports as required under NI 55-102 to alert insiders to changes affecting all holdings of a class of securities.[10]
Reliance on third parties	Some reporting insiders relied on third parties to make their filings and had genuinely believed that such filings had been made.

Staff Recommendation:

As responsibility to file insider reports remains with the reporting insider regardless of whether they use a third party agent, reporting insiders should periodically review SEDI to make sure their reports are being filed correctly.

b) Non-material deficiencies leading to correctional filings

- *In approximately 45% of issuers reviewed, at least one insider filed inaccurate insider reports on SEDI (with one or more non-material deficiencies (as described below)) which resulted in approximately 150 reporting insiders making correctional filings to address the non-material deficiencies.*

These reporting insiders were not subjected to late fees or other penalties.

Some of the non-material deficiencies resulting in correctional filings were as follows:

- inaccurate transaction codes;
- inaccurate transaction dates;
- inaccurate reporting with respect to type of ownership (direct, indirect or control or direction);
- not reporting the name of the registered holder; and
- use of incorrect security designations by issuers, precluding their insiders from correctly reporting their transactions (see discussion below under the heading "Use of incorrect security designations").

[9] See section 3.3 of NI 55-104 which requires a reporting insider to file a report to disclose any change in the reporting insider's beneficial ownership of, or control or direction over, whether direct or indirect, securities of the reporting issuer.
[10] See section 2.4 of NI 55-102 as well as Form 55-102F4 *Issuer Event Report* and Part 8 of NI 55-104.

c) Other common findings

In addition to the above, staff observed the following:

i. Unfamiliarity with requirement to update insider profiles and issuer profile supplements on SEDI

Reporting insider profiles

Some reporting insiders were not aware that when they cease to be a reporting insider of a reporting issuer, their insider profile on SEDI must be amended to reflect this fact within 10 calendar days of the change.

- *Approximately 500 insiders were asked to update their profile on SEDI to disclose that they had ceased to be reporting insiders of reporting issuers.*

Some reporting insiders were also not aware that their contact information was out of date.

- *Approximately 300 insiders were required to update their profile on SEDI as their contact information was out of date.*

Staff Recommendation:

Reporting insiders should be proactive and periodically review their insider profiles on SEDI to determine whether they continue to be shown as reporting insiders of issuers and whether their contact information is current.

Issuer profile supplements

Some reporting issuers were not aware that they are required to file an amended issuer profile supplement on SEDI immediately if there is a change in the information disclosed in their issuer profile supplement.

- *Approximately 60% of issuers had out of date issuer profile supplements which required updating.*

Some of the common issues noted were as follows:

- the insider affairs contact was out of date; and
- security designations needed to be updated (see below).

Staff Recommendation:

Issuers should be proactive and periodically review their issuer profile supplement to see if any updates are required and remind their insiders to review their insider profiles for accuracy and completeness.

ii. Use of incorrect security designations by issuers

In their issuer profile supplements, reporting issuers are required to designate all types of securities and related financial instruments that are held by insiders.

- *Security designations were required to be updated for approximately 40% of reporting issuers reviewed.*

Security designations needed to be updated for the following reasons:

- security designations were omitted;
- security designations were set up incorrectly; or
- security designations needed to be archived.

The majority of security designations that required updating were issuer derivative securities (e.g., stock options, rights, RSAs, DSAs and PSAs). Incorrect designation of issuer derivative securities as simple equity securities precluded insiders from properly reporting the characteristics of these securities (e.g., exercise price and vesting or expiration date) and transactions in these securities (e.g., the exercise or vesting of such securities).

Staff Recommendation:

Guidance on creating security designations can be found in Staff Notice 55-316. However, issuers should contact the OSC if they have further questions to ensure new securities designations are set up properly in SEDI.

iii. Limited use of issuer grant reports by issuers

- *Only 10% of issuers filed one or more issuer grant reports since January 2014.*[11]

An issuer grant report is a report that may be voluntarily filed by a reporting issuer on SEDI which discloses the details of a grant of stock options or similar instruments to its insiders under a compensation arrangement which has already been described in a public document filed on SEDAR.

While there is no obligation for an issuer to file issuer grant reports, staff believe that increased use of issuer grant reports by issuers would be beneficial to all stakeholders as it would provide the market with timely information about the existence and material terms of a grant and provide insiders with relief from having to report the grant within the ordinary reporting time periods.[12]

Staff Recommendation:

To communicate information about a grant in a timely manner and to help avoid late fees being charged against its insiders, issuers should consider filing an issuer grant report within 5 days of a grant.

[11] While it is possible that other issuers did not have a reason to file issuer grant reports since January 2014, staff believe that this is highly unlikely given that many reporting issuers have compensation plans which contemplate granting of stock options or similar instruments.
[12] See section 6.2 of NI 55-104 for the terms of the insider reporting exemption for certain issuer grants.

iv. Lack of internal processes to reconcile insider reports on SEDI with issuers' CD records on SEDAR

As mentioned above, we observed that in many cases, information contained in SEDI filings did not reconcile to the related issuer's CD records available on SEDAR. Some issuers noted that the information contained in CD documents was incorrect as the issuer relied solely on the information communicated by insiders and did not compare such information to the insiders' SEDI filings.

- *Staff issued comments to approximately 20% of the reporting issuers reviewed requesting that they implement, on a going-forward basis, an internal process to reconcile insiders' reported holdings in CD documents to SEDI filings.*

Staff believe that such internal processes are an important element in the design and operation of issuers' internal control over financial reporting and disclosure controls and procedures.

Staff Recommendation:

Issuers should implement a process to annually verify the securities holdings communicated to them by insiders in order to avoid variances in the public records filed by the issuer on SEDAR versus the reports filed by insiders on SEDI.

Reporting insiders should be proactive and review information circulars annually and other CD records of the issuer on a regular basis to ensure their security holdings are properly reflected.

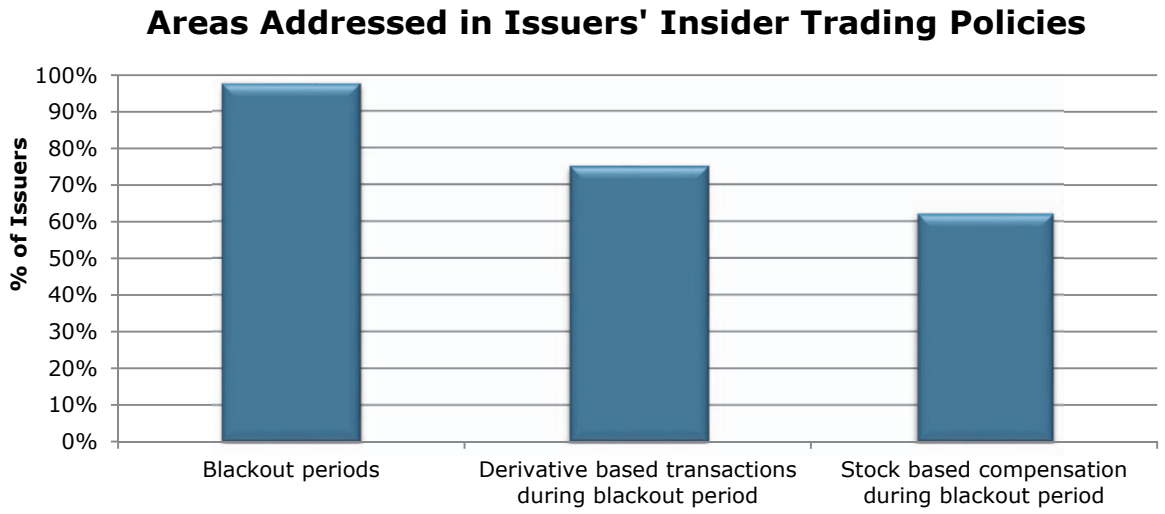
Improvement of Insider Trading Policies is Recommended

Most issuers had a written insider trading policy that was in accordance with the best practices set out in NP 51-201 and provided for "blackout periods" around regularly scheduled earnings announcements.

- *Approximately 85% of the issuers had written insider trading policies in place.*

However, as demonstrated in the chart below, certain policies reviewed by staff did not restrict derivative-based transactions or the grant of stock options or similar forms of stock-based compensation during blackout periods.

While these types of transactions are not specifically addressed in NP 51-201, staff believe that having a written insider trading policy which prohibits such transactions during blackout periods is essential to avoid public and regulatory scrutiny relating to the opportunistic timing of such actions taken on the basis of market prices which do not reflect material undisclosed information.



Staff Recommendation:

Issuers should annually review their insider trading policies to ensure they align with current Canadian securities legislation.

Issuers should also adopt a written policy which, among other things, specifically prohibits derivative-based transactions, the grant of options and the setting of the exercise price during blackout periods. The written policy should also provide for a senior officer to approve and monitor the trading activity of all insiders, officers, and senior employees.

7. Examples

For examples of common deficiencies noted by staff during this review, please see **Appendix A**.

8. Conclusion

Our findings suggest that many reporting insiders need to improve the quality of their insider reporting for accuracy, completeness and timeliness. Staff strongly recommend that issuers and reporting insiders take note of the recommendations made in this notice and consider other processes that can be put in place to increase the rate of compliance with insider reporting obligations.

To assist issuers and their reporting insiders, we have included as **Appendix B** and **Appendix C,** checklists which highlight some of the key points that reporting insiders and issuers, respectively, should consider in complying with insider reporting requirements.

Staff remind issuers and reporting insiders of their responsibility to ensure that their filing obligations under NI 55-102 and NI 55-104 are satisfied. We also remind issuers and reporting insiders that regulatory action may be taken against issuers and reporting insiders who have not fulfilled their insider reporting requirements.

We will continue to monitor and review insider reporting as part of our normal course CD review program with an emphasis on continuing to educate issuers and reporting insiders on their obligations. We will also focus on identifying those reporting insiders who fail to file reports given the negative impact this non-compliance has on our insider reporting regime and market efficiency.

9. Questions

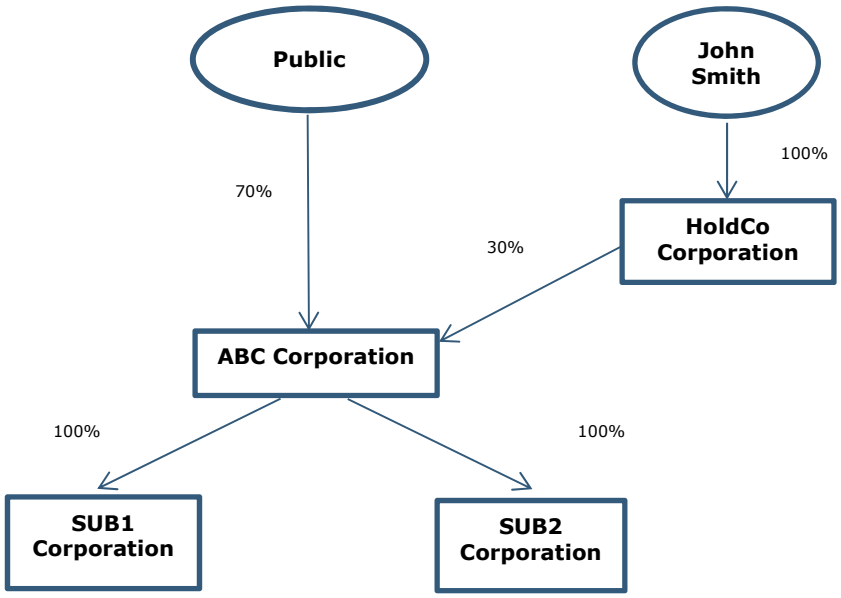
If you have any questions, please feel free to contact any of the following individuals:

Inquiries and Contact Centre, Strategy and Operations Branch Tel: 416.593.8314 / 1.877.785.1555 Email: inquiries@osc.gov.on.ca	**Julie Erion, Supervisor, Insider Reporting, Corporate Finance Branch** Tel: 416.593.8154 Email: jerion@osc.gov.on.ca
Shannon O'Hearn, Manager, Corporate Finance Branch Tel: 416.595.8944 Email: sohearn@osc.gov.on.ca	**Katie DeBartolo, Accountant, Corporate Finance Branch** Tel: 416.593.2166 Email: kdebartolo@osc.gov.on.ca
Gina You, Legal Counsel, Corporate Finance Branch Tel: 416.595.8934 Email: gyou@osc.gov.on.ca	**Krstina Skocic, Legal Counsel, Corporate Finance Branch** Tel: 416.263.3769 Email: kskocic@osc.gov.on.ca

APPENDIX A

EXAMPLES

Refer to the following diagram for Examples 1 and 2.



Example 1:

Q. **ABC Corporation is a reporting issuer. It has two subsidiaries, SUB1 Corporation and SUB2 Corporation, each of which is wholly owned and considered a "major subsidiary" for purposes of NI 55-104. Each of the directors and senior officers of SUB1 Corporation and SUB2 Corporation holds common shares of ABC Corporation. Do these directors and senior officers need to file insider reports?**

A. *Yes, the directors and senior officers[1] of SUB1 Corporation and SUB 2 Corporation need to file insider reports in respect of their holdings in the common shares of ABC Corporation.*

We note that senior officers and directors of major subsidiaries of an issuer are "reporting insiders" under NI 55-104. "Major subsidiary" is defined in NI 55-104 as a subsidiary of an issuer if the assets or revenue of the subsidiary are 30 percent or more of the consolidated assets or revenue of the issuer, as applicable.

[1] "Senior officer" refers to persons acting as the CEO, CFO and COO of an issuer. See the definitions of CEO, CFO and COO in NI 55-104.

Example 2:

Q. Holdco Corporation is a private holding company. Mr. John Smith owns all of the common shares of Holdco Corporation. Holdco Corporation owns 30% of the shares in ABC Corporation. Mr. John Smith has a SEDI insider profile and reports his indirect ownership in ABC Corporation through Holdco Corporation. Is Holdco Corporation required to have its own insider profile and file its own insider reports in respect of the common shares it holds in ABC Corporation?

A. Yes, Holdco Corporation is required to have its own insider profile and file its own insider reports. The definition of "significant shareholder" means a person or company that has beneficial ownership of, or control or direction over, whether direct or indirect, securities of an issuer carrying more than 10 percent of the voting rights. As Holdco Corporation has control or direction over the securities that are held in its name representing 30% of the shares of ABC Corporation, and it does not otherwise qualify for a reporting exemption under NI 55-104, it should have its own filings on SEDI.

Example 3:

Q. Effective January 1, 2016, ABC Corporation enters into a new compensation plan which contemplates grants of restricted share awards (RSAs) and performance share awards (PSAs) as long term incentives for its senior officers. The RSAs and PSAs entitle the holder to common shares of ABC Corporation after a specified period. On May 31, 2016, ABC Corporation awards RSAs and PSAs to its senior officers. What actions could ABC Corporation take to encourage reporting insiders to comply with their insider reporting obligations?

A. We recommend ABC Corporation take the following steps:

1. *Prior to the first grants of RSAs and PSAs, publicly disclose the existence and material terms of the compensation arrangement in an information circular or other public document filed on SEDAR.*

2. *Prior to the first grants of RSAs and PSAs, create new security designations for RSAs and PSAs on SEDI as contemplated under section 3.2.7 of Staff Notice 55-316:*

Security Designation
Security category: Issuer Derivatives
Security name: Other
Additional description: Restricted Share Awards (or Performance Share Awards, as applicable)

Underlying Security Designation
Security category: Equity
Security name: Common Shares

A brief description of the security can be added to the name of the security (e.g., vesting date and/or conversion details).

3. *File an issuer grant report within 5 days of the grant (i.e., within 5 days of May 31, 2016) on SEDI in accordance with section 6.3 of NI 55-104 to allow its reporting insiders to take advantage of the delayed reporting exemption in section 6.2 of NI 55-104.*

Example 4:

Q. ABC Corporation announces the launch of a NCIB by way of a press release on April 1, 2016. On May 14, 2016 and May 28, 2016, ABC Corporation purchases for cancellation 1000 common shares and 3000 common shares respectively under the NCIB. The common shares purchased are cancelled on June 13, 2016. What actions should ABC Corporation take to comply with its insider reporting obligations?

A. ABC Corporation should take the following steps:

1. *Create an insider profile on SEDI (if it has not done so already) to reflect that it is a reporting insider.*

2. *File two separate insider reports on or prior to June 10, 2016 to report the May acquisitions under the NCIB – one for the 1000 common shares purchased on May 14, 2016 and one for the 3000 common shares purchased on May 28, 2016.*

3. *File two separate insider reports on or prior to July 10, 2016 to report the cancellation of common shares purchased on May 14, 2016 (1000 common shares) and May 28, 2016 (3000 common shares), respectively.*

For more information, see section 4.5.1 of Staff Notice 55-316.

APPENDIX B

USER GUIDE FOR REPORTING INSIDERS

This user guide is provided to assist reporting insiders with their insider reporting obligations. This guide is not meant to be exhaustive and we remind reporting insiders that responsibility for complying with the insider reporting requirements under Ontario securities laws rests with the reporting insiders themselves.

		Yes	No	N/A
Part A: Reporting Insider Profile on SEDI				
1	I have reviewed the definition of "reporting insider" under NI 55-104 and I am considered a reporting insider of the reporting issuer. *Note: You may need to seek advice about this item. You should also determine whether you qualify for an insider reporting exemption under NI 55-104 or otherwise under Ontario securities laws.*			
2	I hold securities of the reporting issuer.[1]			
3	If "yes" to items 1 and 2, within 10 calendar days of becoming a reporting insider, I have registered as a SEDI user and filed my insider profile on SEDI identifying my relationship with the reporting issuer.			
4	I periodically review my SEDI insider profile and make updates to my profile where required.			
5	I am no longer a reporting insider of the reporting issuer and I have amended my SEDI insider profile within 10 calendar days of that change in status to indicate that I have ceased to be a reporting insider of the reporting issuer.			
Part B: Insider Reports on SEDI				
6	I have filed insider reports on SEDI that reflect all of my securities holdings and related transactions.			
7	I periodically review records of my securities holdings and compare those records to the filings I have made on SEDI for purposes of accuracy and completeness. *Note: This should include a review of:* - *balances in securities holdings* - *transaction dates* - *transaction codes* - *type of ownership (direct, indirect or control or direction)*			

[1] In this guide, "hold" or "holdings" refer to beneficial ownership of, or control or direction over, whether direct or indirect, securities of the reporting issuer.

		Yes	No	N/A
8	I use a filing agent or other third party for my reporting insider filings on SEDI.			
9	If "yes" to item 8, I review my SEDI filings on a periodic basis to ensure all requested filings are accurate and complete.			
10	I hold issuer derivatives with expiration dates (e.g., stock options).			
11	If "yes" to item 10, I have reported the expiration of any issuer derivative securities on SEDI within 5 days of the expiration date.			
Part C: Holding Companies that are Significant Shareholders				
12	I hold more than 10% of the outstanding shares of the reporting issuer through a holding company that I control.			
13	If "yes" to item 12, I have reported on SEDI that I have control or direction over those shares through my holding company.			
14	If "yes" to item 13, my holding company has filed its own insider reports on SEDI for the shares that it directly owns.			
Part D: Grants of Stock Options and Other Forms of Compensation				
15	I have received stock options or other forms of compensation under the reporting issuer's compensation plans.			
16	If "yes" to item 15, I have checked the reporting issuer's SEDI profile to determine if the reporting issuer has filed an issuer grant report within 5 days of each grant. *Note: If an issuer grant report has been filed by the issuer within 5 days of the grant in accordance with Part 6 of NI 55-104, you have until March 31 of the next calendar year to report the grant, unless you transfer or dispose of the granted securities before such date (in which case the grant needs to be reported within 5 days of the transfer or disposition).*[2]			
17	If an issuer grant report has not been filed by the reporting issuer, I have reported each grant on SEDI within 5 days of the grant.			
Part E: Continuous Disclosure Filings of the Reporting Issuer				
18	I have reviewed the continuous disclosure filings of the reporting issuer (e.g., management information circulars) that include my securities holdings for accuracy and completeness and reported any discrepancies to the reporting issuer.			

[2] There are certain exceptions for "specified dispositions". See Part 6 of NI 55-104.

APPENDIX C

USER GUIDE FOR REPORTING ISSUERS

This user guide is provided to assist reporting issuers with their insider reporting obligations as well as the reporting obligations of their reporting insiders. This guide is not meant to be exhaustive and we remind reporting issuers that responsibility for complying with the insider reporting requirements under Ontario securities laws rests with the issuers themselves (if applicable) and their reporting insiders.

		Yes	No	N/A
Part A: Issuer Profile Supplement on SEDI				
1	The reporting issuer periodically reviews the insider affairs contact information on its issuer supplement on SEDI and makes updates where required.			
2	The reporting issuer periodically reviews its security designations on its issuer supplement on SEDI to ensure that all securities have been designated and archived as appropriate. *Note: The reporting issuer should ensure that "issuer derivative securities" such as stock options, restricted share awards, deferred share awards and performance share awards have been categorized as issuer derivative securities.*			
Part B: Insider Reports on SEDI				
3	The reporting issuer engages in NCIBs.			
4	If "yes" to item 3, the issuer has created an insider profile on SEDI so that it can report acquisitions under a NCIB.			
5	If "yes" to item 3, the reporting issuer has reviewed its filings on SEDI to ensure that all transactions related to NCIBs have been reported on SEDI within 10 days of the end of the month in which the transaction was completed.			
6	The reporting issuer has recently announced an "issuer event" that affects all holdings of an entire class of its securities in the same manner. *Note: An "issuer event" includes:* - *stock dividend* - *stock split* - *consolidation* - *amalgamation* - *reorganization* - *merger* - *other similar event*			
7	If "yes" to item 6, the reporting issuer has filed an issuer event report on SEDI no later than one business day following the occurrence of the issuer event.			

		Yes	No	N/A
Part C: Grants of Stock Options and Other Forms of Compensation				
8	The reporting issuer has compensation arrangements under which grants of stock options and similar instruments may be made to reporting insiders. *Note: The reporting issuer should consider filing an issuer grant report within 5 days of a grant to provide the market with timely information about the existence and material terms of a grant and allow reporting insiders to take advantage of the delayed reporting exemption in section 6.2 of NI 55-104.*			
9	If "yes" to item 8, the reporting issuer notifies its reporting insiders of such grants in a timely manner (by filing an issuer grant report or otherwise).			
Part D: Continuous Disclosure Filings of the Reporting Issuer				
10	The reporting issuer relies on information communicated by its reporting insiders to prepare its continuous disclosure records (e.g., management information circulars). *Note: To avoid discrepancies in public records, the reporting issuer should consider implementing a process to compare securities holdings disclosed by its reporting insiders on SEDI to the balances communicated to the reporting issuer.*			

1.1.3 Notice of Ministerial Approval of NI 24-102 Clearing Agency Requirements

NOTICE OF MINISTERIAL APPROVAL OF
NATIONAL INSTRUMENT 24-102 CLEARING AGENCY REQUIREMENTS

On January 18, 2016, the Minister of Finance approved National Instrument 24-102 *Clearing Agency Requirements* (Instrument) as a rule under the *Securities Act*. The Instrument imposes ongoing requirements on recognized clearing agencies, as well as formalizes a framework for the recognition or exemption of clearing agencies seeking to carry on business in a Canadian jurisdiction.

The Instrument and its related Companion Policy 24-102CP (Companion Policy) were published in final form in the Bulletin on December 3, 2015 at (2015), 38 OSCB (Supp-5). No changes have been made to the Instrument and Companion Policy since this publication. The Instrument and Companion Policy are reprinted in Chapter 5 of this issue.

The Instrument came into force on February 17, 2016, subject to certain transitional provisions.

1.2 Notices of Hearing

1.2.1 Welcome Place Inc. et al. – ss. 127(1), 127(2), 127.1

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

AND

IN THE MATTER OF
WELCOME PLACE INC.,
DANIEL MAXSOOD also known as MUHAMMAD M. KHAN,
TAO ZHANG, and TALAT ASHRAF

NOTICE OF HEARING
(Subsections 127(1) and 127(2) and 127.1)

TAKE NOTICE that the Ontario Securities Commission (the "Commission") will hold a hearing pursuant to sections 127(1) and 127(2) and 127.1 of the *Securities Act*, R.S.O., c. S.5, as amended (the "Act"), at the offices of the Commission located at 20 Queen Street West, 17th Floor, in the City of Toronto, on February 11, 2016, at 9:30 a.m. or as soon thereafter as the hearing can be held;

AND TAKE NOTICE that the purpose of the hearing is for the Commission to consider whether it is in the public interest approve the Settlement Agreement, between Staff of the Commission and Welcome Place Inc., Daniel Maxsood also known as Muhammad M. Khan, Tao Zhang and Talat Ashraf pursuant to subsections 127(1) and 127(2) and section 127.1 of the Act, and make such other order as the Commission may consider appropriate;

BY REASON OF the allegations set out in the Statement of Allegations dated December 18, 2014 and such additional allegations as counsel may advise and the Commission may permit;

AND TAKE FURTHER NOTICE that any party to the proceeding may be represented by counsel at the hearing;

AND TAKE FURTHER NOTICE that upon failure of any party to attend at the time and place stated above, the hearing may proceed in the absence of that party, and such party is not entitled to any further notice of the proceeding;

AND TAKE FURTHER NOTICE that the Notice of Hearing is also available in French, participation may be in either French or English and participants must notify the Secretary's Office in writing as soon as possible, and in any event, at least thirty (30) days before a hearing if the participant is requesting a proceeding to be conducted wholly or partly in French; and

ET AVIS EST ÉGALEMENT DONNÉ PAR LA PRÉSENTE que l'avis d'audience est disponible en français, que la participation à l'audience peut se faire en français ou en anglais et que les participants doivent aviser le Bureau du secrétaire par écrit le plus tôt possible et, dans tous les cas, au moins trente (30) jours avant l'audience si le participant demande qu'une instance soit tenue entièrement ou partiellement en français.

DATED at Toronto, this 11th day of February, 2016.

"Josée Turcotte"
Secretary to the Commission

1.5 Notices from the Office of the Secretary

1.5.1 Daniel William Yanaky

FOR IMMEDIATE RELEASE
February 10, 2016

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

AND

IN THE MATTER OF
A REQUEST FOR A HEARING AND REVIEW OF
THE DECISION OF A HEARING PANEL OF
THE MUTUAL FUND DEALERS ASSOCIATION OF
CANADA DATED MARCH 17, 2015

AND

IN THE MATTER OF
DANIEL WILLIAM YANAKY

TORONTO – The Commission issued an Order in the above named matter which provides that:

1. the February 4, 2016 hearing date scheduled for the Hearing and Review is vacated;

2. the Applicant shall serve and file his memorandum of fact and law by April 27, 2016;

3. Staff of the MFDA and Staff of the Commission shall each file their memorandum of fact and law at least 15 days before the hearing; and

4. the Hearing and Review shall take place on June 2, 2016 at 10:00 a.m. or as soon thereafter as the hearing can be held.

A copy of the Order dated February 8th, 2016 is available at www.osc.gov.on.ca.

OFFICE OF THE SECRETARY
JOSÉE TURCOTTE
SECRETARY

For media inquiries:

media_inquiries@osc.gov.on.ca

For investor inquiries:

OSC Contact Centre
416-593-8314
1-877-785-1555 (Toll Free)

1.5.2 Weizhen Tang

FOR IMMEDIATE RELEASE
February 10, 2016

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

AND

IN THE MATTER OF
WEIZHEN TANG

TORONTO – The Commission issued an Order in the above named matter which provides that the parties shall attend a confidential pre-hearing conference at 9:00 a.m. on February 17, 2016.

A copy of the Order dated February 10th, 2016 is available at www.osc.gov.on.ca.

OFFICE OF THE SECRETARY
JOSÉE TURCOTTE
SECRETARY

For media inquiries:

media_inquiries@osc.gov.on.ca

For investor inquiries:

OSC Contact Centre
416-593-8314
1-877-785-1555 (Toll Free)

1.5.3 CI Investments Inc.

FOR IMMEDIATE RELEASE
February 10, 2016

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

AND

IN THE MATTER OF
CI INVESTMENTS INC.

TORONTO – Following a hearing held today, the Commission issued an Order in the above named matter approving the Settlement Agreement reached between Staff of the Commission and CI Investments Inc.

A copy of the Order dated February 10, 2016 and Settlement Agreement dated February 5, 2016 are available at www.osc.gov.on.ca.

OFFICE OF THE SECRETARY
JOSÉE TURCOTTE
SECRETARY

For media inquiries:

media_inquiries@osc.gov.on.ca

For investor inquiries:

OSC Contact Centre
416-593-8314
1-877-785-1555 (Toll Free)

1.5.4 Welcome Place Inc. et al.

FOR IMMEDIATE RELEASE
February 11, 2016

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

AND

IN THE MATTER OF
WELCOME PLACE INC.,
DANIEL MAXSOOD also known as
MUHAMMAD M. KHAN, TAO ZHANG,
and TALAT ASHRAF

TORONTO – The Office of the Secretary issued a Notice of Hearing for a hearing to consider whether it is in the public interest to approve a settlement agreement entered into by Staff of the Commission and Welcome Place Inc., Daniel Maxsood also known as Muhammad M. Khan, Tao Zhang and Talat Ashraf in the above named matter.

The hearing will be held on February 11, 2016 at 9:30 a.m. on the 17th floor of the Commission's offices located at 20 Queen Street West, Toronto.

A copy of the Notice of Hearing dated February 11, 2016 is available at www.osc.gov.on.ca.

OFFICE OF THE SECRETARY
JOSÉE TURCOTTE
SECRETARY

For media inquiries:

media_inquiries@osc.gov.on.ca

For investor inquiries:

OSC Contact Centre
416-593-8314
1-877-785-1555 (Toll Free)

1.5.5 Welcome Place Inc. et al.

FOR IMMEDIATE RELEASE
February 11, 2016

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

AND

IN THE MATTER OF
WELCOME PLACE INC.,
DANIEL MAXSOOD also known as
MUHAMMAD M. KHAN, TAO ZHANG,
and TALAT ASHRAF

TORONTO – Following a hearing held today, the Commission issued an Order in the above named matter approving the Settlement Agreement reached between Staff of the Commission and Welcome Place Inc., Daniel Maxsood also known as Muhammad M. Khan, Tao Zhang and Talat Ashraf.

The Commission also issued an Order in the above named matter in which the dates for the hearing on the merits previously scheduled to commence on February 11, 2016 and continue on February 12, 2016 are vacated.

A copy of the Order dated February 11, 2016 and Settlement Agreement dated February 10, 2016; and the Order dated February 11, 2016 are available at www.osc.gov.on.ca.

OFFICE OF THE SECRETARY
JOSÉE TURCOTTE
SECRETARY

For media inquiries:

media_inquiries@osc.gov.on.ca

For investor inquiries:

OSC Contact Centre
416-593-8314
1-877-785-1555 (Toll Free)

1.5.6 Majestic Supply Co. Inc. et al.

FOR IMMEDIATE RELEASE
February 16, 2016

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

AND

IN THE MATTER OF
MAJESTIC SUPPLY CO. INC.,
SUNCASTLE DEVELOPMENTS CORPORATION,
HERBERT ADAMS, STEVE BISHOP,
MARY KRICFALUSI, KEVIN LOMAN AND
CBK ENTERPRISES INC.

TORONTO – The Commission issued its Reasons and Decision on Sanctions and Costs and an Order in the above named matter.

A copy of the Reasons and Decision on Sanctions and Costs and the Order dated February 12, 2016 are available at www.osc.gov.on.ca.

OFFICE OF THE SECRETARY
JOSÉE TURCOTTE
SECRETARY

For media inquiries:

media_inquiries@osc.gov.on.ca

For investor inquiries:

OSC Contact Centre
416-593-8314
1-877-785-1555 (Toll Free)

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Chapter 2

Decisions, Orders and Rulings

2.1 Decisions

2.1.1 Andylan Capital Strategies Ltd. et al.

Headnote

Multilateral Instrument 11-102 Passport System – National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – Under sections 4.1(1)(a) and 4.1(1)(b) of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, a registered firm must not permit an individual to act as a dealing, advising or associate advising representative of the registered firm if the individual acts as an officer, partner or director of another registered firm that is not an affiliate of the first-mentioned firm, or if the individual is registered as a dealing, advising or associate advising representative of another registered firm – the firms require relief for a limited period of time – the dually registered individual will have sufficient time to adequately serve both firms – as one firm has wound down its operations and does not carry on registerable activities, conflicts of interest are unlikely to arise – the firms have policies in place to handle potential conflicts of interest – the firms are exempted from the prohibition against dual registration.

Applicable Legislative Provisions

Multilateral Instrument 11-102 Passport System, s. 4.7.
National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions.
National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, ss.4.1, 15.1.

Citation: Re Andylan Capital Strategies Ltd., 2016 ABASC 37

February 5, 2016

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ALBERTA AND ONTARIO
(the Jurisdictions)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF
APPLICATIONS IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
ANDYLAN CAPITAL STRATEGIES LTD.
(Andylan),
PALISADE CAPITAL MANAGEMENT LTD.
(Palisade) AND
JOHN MCALEER
(McAleer) (collectively, the Filers)

DECISION

Background

The securities regulatory authority or regulator in each of the Jurisdictions (**Decision Makers**) has received an application from the Filers for a decision under the securities legislation of the Jurisdictions (the **Legislation**) for exemptive relief from the restriction in sections 4.1(1)(a) and 4.1(1)(b) of National Instrument 31-103 *Registration Requirements Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) to permit McAleer to act as an advising representative, ultimate designated person, chief compliance officer, director and officer of Andylan and to permit McAleer to act as an advising representative, dealing representative and officer of Palisade for a limited period of time pending the surrender of the registration of Andylan (the **Exemption Sought**).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a dual application):

(i) the Alberta Securities Commission is the principal regulator (the **Principal Regulator**) for this application;

(ii) the Filers have provided notice that section 4.7(1) of Multilateral Instrument 11-102 *Passport System* (**MI 11-102**) is intended to be relied upon by the Filers in British Columbia and Manitoba; and

(iii) the decision is the decision of the Principal Regulator and also evidences the decision of the securities regulatory authority or regulator in Ontario.

Interpretation

Terms defined in MI 11-102, NI 31-103 and National Instrument 14-101 *Definitions* have the same meaning in this decision unless otherwise defined herein.

Representations

This decision is based on the following facts represented by the Filers:

1. Andylan is a company organized under the laws of Alberta, with a head office in Alberta. Andylan is currently registered in the categories of investment fund manager and portfolio manager under securities legislation in Alberta.

2. Palisade is a company organized under the laws of Alberta, with a head office in Alberta. Palisade is registered in the categories of investment fund manager, portfolio manager and exempt market dealer under securities legislation in Alberta and in the category of exempt market dealer under the securities legislation in British Columbia, Manitoba and Ontario.

3. The Filers are not in default of any requirement of securities legislation in any jurisdiction in which they are registered.

4. McAleer is a director and officer of Andylan and serves as an advising representative, ultimate designated person and chief compliance officer of Andylan.

5. Subject to regulatory approval, McAleer has agreed to act as an advising representative, dealing representative and officer of Palisade.

6. Andylan wound up its client base and attendant obligations on or about December 10, 2015. Andylan acted as a sub-advisor for Palisade pursuant to a sub-advisory agreement between the parties. Andylan and Palisade terminated the sub-advisory agreement by mutual consent effective December 31, 2015. Andylan intends to request the surrender and consent to the suspension of its registration in Alberta.

7. The Filers have in place policies and procedures to address any conflicts of interest that may arise as a result of the dual registration. The activities of Andylan are administrative in nature and do not include registerable activities of any kind.

8. Furthermore, Palisade has compliance and supervisory policies and procedures in place to monitor the conduct of its representatives (including McAleer) and to ensure that Palisade can deal appropriately with any conflicts of interest that may arise.

9. McAleer will have sufficient time and resources to adequately meet his obligations to each firm.

10. In the absence of the Exemption Sought, McAleer would be prohibited under sections 4.1(1)(a) and 4.1(1)(b) of NI 31-103 from acting as a director, officer and advising representative of Andylan while also acting as an officer, advising representative and dealing representative of Palisade.

Decision

Each of the Decision Makers is satisfied that the decision meets the test set out in the Legislation for the Decision Maker to make this decision.

The decision of the Decision Makers under the Legislation is that the Exemption Sought is granted provided that:

(a) upon approval of McAleer's registration with Palisade, all registerable activities of McAleer are carried on through Palisade and Andylan will continue not to perform registerable activities;

(b) within 30 days of the decision, Andylan requests the surrender and consents to the suspension of its registration in Alberta; and

(c) within 120 days of this decision, Andylan files all of the documentation required in connection with the surrender of its registration in Alberta.

"Lynn Tsutsumi", CA
Director, Market Regulation
Alberta Securities Commission

2.1.2 Genterra Capital Inc. – s. 144

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – application for a decision that the issuer is not a reporting issuer under applicable securities laws – issuer in default of its obligation to file and deliver its annual financial statements and related management's discussion and analysis – requested relief granted.

Applicable Legislative Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., s. 1(10)(a)(ii).

February 9, 2016

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ALBERTA, ONTARIO AND QUEBEC
(THE JURISDICTIONS)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF
APPLICATIONS IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
GENTERRA CAPITAL INC.
(THE FILER)

DECISION

Background

The securities regulatory authority or regulator in each of the Jurisdictions (the **Decision Maker**) has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the **Legislation**) that the Filer is not a reporting issuer in the Jurisdictions (the **Exemptive Relief Sought**).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a coordinated review application):

(a) the Ontario Securities Commission is the principal regulator for this application, and

(b) the decision is the decision of the principal regulator and evidences the decision of each other Decision Maker.

Interpretation

Terms defined in National Instrument 14-101 *Definitions* have the same meaning if used in this decision, unless otherwise defined.

Representations

This decision is based on the following facts represented by the Filer:

1. The Filer is a company amalgamated under the *Business Corporations Act* (Ontario) and has its head and registered office in Toronto, Ontario.

2. The Filer is a reporting issuer in each of the Jurisdictions.

3. The authorized capital of the Filer consists of an unlimited number of Common Shares, an unlimited number of Class A Preference Shares and an unlimited number of Class B Preference Shares. At the close of business on October 25, 2015, there were 8,314,358 Common Shares, 326,000 Class A Preference Shares and 8,703,016 Class B Preference Shares issued and outstanding.

4. Pursuant to a plan of arrangement under the *Business Corporations Act* (Ontario) (the **Arrangement**) completed on October 26, 2015 between the Filer and Gencan Capital Inc. (**Gencan**), the holders of Common Shares of the Filer, other than those holders who were, for the purposes of voting on the Arrangement, "interested parties" within the meaning of Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* (**MI 61-101**) or otherwise required to be excluded for the purposes of a vote on the Arrangement under the requirements of MI 61-101, exchanged the Common Shares of the Filer held by them for either cash or cash and shares of Gencan.

5. On November 30, 2015, the Filer redeemed all of the issued and outstanding Class B Preference Shares of the Filer in accordance with the terms and conditions attaching to such shares. As a result, there are no Class B Preference Shares issued and outstanding.

6. All of the Class A Preference Shares are held by one shareholder.

7. As a result of the Arrangement, Gencan became a reporting issuer and the Filer became wholly-owned, directly and indirectly, by its current control group comprised of its Chairman, Fred A. Litwin, and members of his family.

8. The Common Shares of the Filer, which traded under the symbol "GIC" on the TSX Venture Exchange, were delisted effective at the close of trading on October 28, 2015.

9. The Filer has no other outstanding securities, including debt securities, aside from the Common Shares and the Class A Preference Shares.

10. The outstanding securities of the Filer, including debt securities, are beneficially owned, directly or indirectly, by fewer than 15 securityholders in each of the jurisdictions of Canada and fewer than 51 securityholders in total worldwide.

11. No securities of the Filer, including debt securities, are traded in Canada or another country on a "marketplace" as defined in National Instrument 21-101 *Marketplace Operation* or any other facility for bringing together buyers and sellers of securities where trading data is publicly reported.

12. The Filer has no intention to seek a public financing by way of an offering of its securities.

13. Pursuant to British Columbia Instrument 11-502 *Voluntary Surrender of Reporting Issuer Status*, the Filer voluntarily surrendered its reporting issuer status on January 19, 2016 and the British Columbia Securities Commission confirmed its non-reporting status in British Columbia effective January 29, 2016.

14. The Filer is not in default of any requirement of securities legislation in any Jurisdiction, except for the obligation to file in the Jurisdictions its annual financial statements and related management's discussion and analysis for the year ended September 30, 2015, as required under National Instrument 51-102 *Continuous Disclosure Obligations*, and the related certification of such financial statements and management's discussion and analysis, as required under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (collectively, the **Filings**), all of which became due on January 29, 2016.

15. The Filer is not eligible to use the simplified procedure under CSA Staff Notice 12-307 *Applications for a Decision that an Issuer is not a Reporting Issuer* because it is in default of its obligation to file the Filings.

16. The Filer is applying for a decision that it is not a reporting issuer in all of the jurisdictions of Canada in which it is currently a reporting issuer.

17. Upon the granting of the Exemptive Relief Sought, the Filer will no longer be a reporting issuer or the equivalent thereof in any jurisdiction of Canada.

Decision

Each of the Decision Makers is satisfied that the decision meets the test set out in the Legislation for the Decision Maker to make the decision.

The decision of the Decision Makers under the Legislation is that the Exemptive Relief Sought is granted.

"Janet Leiper"
Commissioner
Ontario Securities Commission

"Timothy Moseley"
Commissioner
Ontario Securities Commission

2.1.3 Front Street Capital 2004

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – approval for change of control of manager under s. 5.5(1)(a.1) of National Instrument 81-102 Investment Funds – acquirer has requisite experience and integrity to participate in Canadian capital markets – transaction will not result in any material changes to operations and management of the manager or the funds it manages.

Applicable Legislative Provisions

National Instrument 81-102 Investment Funds, ss. 5.5(1)(a.1), 5.7(1)(a), 19.1.

February 9, 2016

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ONTARIO
(the Jurisdiction)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF
APPLICATIONS IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
FRONT STREET CAPITAL 2004
(the Filer)

DECISION

Background

The principal regulator in the Jurisdiction has received an application from the Filer for a decision under the securities legislation of the Jurisdiction of the principal regulator (the **Legislation**) for approval under section 5.5(1)(a.1) of National Instrument 81-102 *Investment Funds* (**NI 81-102**) to the change of control of the Filer (the **Approval Sought**).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

(a) the Ontario Securities Commission is the principal regulator for this Application; and

(b) the Filer has provided notice that subsection 4.7(1) of Multilateral Instrument 11-102 *Passport System* (**MI 11-102**) is intended to be relied upon in Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, the Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island, Quebec, Saskatchewan and Yukon.

Interpretation

Terms defined in National Instrument 14-101 *Definitions* and in MI 11-102 have the same meaning if used in this decision unless they are otherwise defined.

Representations

This decision is based on the following facts represented by the Filer:

Front Street Capital 2004

1. the Filer is a partnership established under the laws of the province of Ontario, of which the current partners are Lamarche Partner Corporation, having a 30.25% interest, Mersch (AFAB) Partner Corporation, having a 30.25% interest, Selke Partner Corporation, having a 30.25% interest, Mistere Partner Corporation, having a 5.00% interest, and Hryma Partner Corporation, having a 4.25% interest;

2. the Filer has a management committee, to be renamed its governance committee (the **Filer's Governance Committee**) which has the complete and exclusive power and authority generally to administer the business of the Filer, consisting of Normand G. Lamarche (the principal of Lamarche Partner Corporation), Frank L. Mersch (the principal of Mersch (AFAB) Partner Corporation) and Gary P. Selke (the principal of Selke Partner Corporation);

3. the head office of the Filer is at 33 Yonge Street, Suite 600, Toronto, Ontario M5E 1G4;

4. the Filer is registered as an investment fund manager in Ontario, Quebec and Newfoundland and Labrador, as an adviser in the category of portfolio manager in British Columbia and Ontario, and as a dealer in the category of exempt market dealer in Alberta and Ontario;

5. the Filer is not in default of the securities legislation of any jurisdiction in Canada;

6. the Filer is the manager and portfolio adviser (within the meaning of such terms in NI 81-102) of a group of publicly offered mutual and non-redeemable investment funds (the **Front Street Funds**);

7. the Front Street Funds are reporting issuers in each of the jurisdictions of Canada;

Proposed Change of Control of the Filer

8. on October 9, 2015, the Filer issued a press release announcing a proposed sale of a majority

interest in the Filer, subject to receipt of all required securities regulatory approvals (the **Proposed Transaction**);

9. on November 16, 2015, notice was sent to each of the securityholders of the Front Street Funds informing such securityholders of the Proposed Transaction, as required by section 5.8(1)(a) of NI 81-102;

10. subject to the receipt of all required securities regulatory approvals, it is intended that the Proposed Transaction be completed on or around February 17, 2016;

11. a notice regarding the Proposed Transaction was delivered to the Compliance & Registrant Regulation branch of the OSC on November 27, 2015 pursuant to sections 11.9 and 11.10 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**);

12. under the Proposed Transaction, an investor group (the Investor Group) has established a holding company (**FS Group Holdings Ltd.**) which will acquire approximately 79% of the partnership interests of the Filer;

13. specifically, FS Group Holdings Ltd. would acquire 100% of the interests in the Filer held by Selke Partner Corporation and 70% of the interests in the Filer held by each of Lamarche Partner Corporation, Mersch (AFAB) Partner Corporation, Mistere Partner Corporation and Hryma Partner Corporation, such that following completion of the Proposed Transaction the partners of the Filer will be FS Group Holdings Ltd., with a 79.075% interest, Lamarche Partner Corporation and Mersch (AFAB) Partner Corporation, each with a 9.075% interest, Mistere Partner Corporation, with a 1.5% interest, and Hryma Partner Corporation, with a 1.275% interest;

14. the members of the Investor Group, who collectively are the sole shareholders of FS Group Holdings Ltd., are three individuals, two of whom are also shareholders of Marquest Asset Management Inc. (**Marquest**) and together hold a majority voting interest in Marquest;

15. the head office of Marquest is located at Suite 4420, 161 Bay Street, TD Canada Trust Tower, Toronto, Ontario, M5J 2S1;

16. Marquest is registered as a dealer in the category of exempt market dealer, as an adviser in the category of portfolio manager and as an investment fund manager with the securities regulatory authorities of each of Ontario, British Columbia, Alberta, Saskatchewan, Quebec, New Brunswick and Newfoundland and Labrador;

17. Marquest is not in default of the securities legislation in any of the jurisdictions of Canada;

18. Marquest is currently the manager of certain mutual funds, closed end investment funds and flow-through limited partnerships subject to NI 81-102 (the **Marquest Funds**);

Effect of the Proposed Transaction on the Filer and the Front Street Funds

19. completion of the Proposed Transaction is not expected to result in any material changes to, or impact on, the business, operations or affairs of the Filer, the Front Street Funds and the securityholders of the Front Street Funds;

20. other than as noted below, the Filer will continue to act as the investment fund manager of the Front Street Funds as a discrete, separate and distinct legal entity in materially the same manner as it has conducted such activities immediately prior to completion of the Proposed Transaction;

21. Mr. Selke, currently the ultimate designated person (**UDP**) of the Filer, intends to depart the firm after completion of the Proposed Transaction, although he will remain for a period of time post-closing in a consulting role with the Filer, and will be replaced by one of the Investors Group members on an interim basis as Chief Executive Officer and UDP of the Filer;

22. as a result of Mr. Selke's departure, the Filer's Governance Committee will be re-constituted to include current members Mr. Lamarche and Mr. Mersch and additionally include the three members of the Investor Group;

23. other than noted above, no current directors, officers or employees of Marquest or its affiliates are expected to become involved in the day-to-day management of the Front Street Funds following completion of the Proposed Transaction, nor is it expected that Marquest will have any involvement in any of the business, operations or affairs of the Filer;

24. upon completion of the Proposed Transaction, the appointments of the current members of independent review committee (the **IRC**) for the Front Street Funds will automatically terminate, but the Filer intends to re-appoint each such member to the IRC;

25. the portfolio managers of the Filer currently responsible for the management of the assets of the Front Street Funds will continue to manage the Front Street Funds and such persons are entirely unrelated, and will remain unrelated, to the persons responsible for managing the Marquest Funds;

26. there is no intention to seek to increase any fees associated with the Front Street Funds as a result of the Proposed Transaction;

27. is no intention to seek to change the custodian or administrator of the Front Street Funds;

28. there is no intention to seek to change the investment objectives or investment strategies of any of the Front Street Funds;

29. there is no intention to change the Front Street "brand";

30. neither the Filer nor the Investor Group expects the acquisition of control of the Filer to have any negative consequences on the ability of the Filer to satisfy its obligations to the Front Street Funds or to adversely affect the operation and administration of the Front Street Funds;

31. the Proposed Transaction does not contemplate and will not at the time of its completion result in a change of manager of either the Front Street Funds or the Marquest Funds;

32. there is no current intention to effect a change of manager either following completion of the Proposed Transaction or, within a foreseeable period of time after completion of the Proposed Transaction.

Decision

The principal regulator is satisfied that the decision meets the test set out in the Legislation for the principal regulator to make the decision.

The decision of the principal regulator under the Legislation is that the Approval Sought is granted.

"Vera Nunes"
Acting Director
Investment Funds and Structured Products Branch

2.1.4 Citadel Securities LLC

Headnote

U.S. registered broker dealer exempted from dealer registration requirements of paragraph 25(1) of the Act for proprietary trades in foreign securities by cross-registered individuals who are located in Canada – trades in Canadian securities will take place through an IIROC-registered investment dealer – relief is subject to sunset clause – relief granted is similar to OSC Rule 32-505 Conditional Exemption from Registration for United States Broker-Dealers and Advisers Servicing U.S. Clients from Ontario and with the parallel orders issued by other members of the Canadian Securities Administrators.

Applicable Legislative Provisions

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

February 12, 2016

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ONTARIO
(the Jurisdiction)

AND

IN THE MATTER OF
CITADEL SECURITIES LLC
(the Filer)

DECISION

Background

The regulator in the Jurisdiction (the **Decision Maker**) has received an application from the Filer for a decision, pursuant to subsection 74(1) of the *Securities Act* (Ontario) (the **Act**), for relief from dealer registration under subsection 25(1) of the Act in respect of trades in securities on a proprietary basis for or on behalf of the Filer as principal by the Cross Registered Representatives (as defined below) who are working from offices located in the Jurisdiction (**U.S. Trading Activities**) (the **Exemption Sought**).

Interpretation

Terms defined in National Instrument 14-101 *Definitions* and MI 11-102 have the same meaning if used in this decision, unless otherwise defined.

For the purposes of this decision, the following terms and phrases have the following meanings:

The term "**Cross Registered Representatives**" shall mean agents of the Filer who are registered under applicable securities laws of the United States in categories or otherwise in a manner that permits such agents to engage in the applicable U.S. Trading Activities for or on behalf of

the Filer, and who are also registered to trade for or on behalf of CES Securities Canada ULC (**Citadel Canada**) under applicable securities laws in Canada as registered individuals of Citadel Canada.

The term "**Canadian securities**" shall mean securities that are listed on an exchange in Canada.

The phrase "**trades in securities on a proprietary basis**" shall mean trades in securities that are recorded on the Filer's books and records as principal, that are held in the Filer's name, and that are not held in nominee form for any of the Filer's clients.

Representations

This decision is based on the following facts represented by the Filer:

1. The Filer is a limited liability company formed pursuant to the laws of Delaware with a head office located in Chicago, Illinois.

2. The Filer is registered as a full-service broker-dealer under the U.S. *Securities Exchange Act of 1934*, as amended, is registered with the U.S. Securities & Exchange Commission (**SEC**) and applicable U.S. state regulators, and is a member of the Financial Industry Regulatory Authority (**FINRA**) and the Securities Investor Protection Corporation. The Filer is not registered in any capacity under securities laws in any province or territory of Canada.

3. Citadel Canada is an affiliate of the Filer, is registered as a dealer under the Act in the category of investment dealer, and is a dealer member of Investment Industry Regulatory Organization of Canada (**IIROC**).

4. The Filer focuses its activities on providing liquidity and trades in securities on a proprietary basis.

5. In addition to trading in securities on a proprietary basis, the Filer is also involved in cross-border jitney activities of executing orders to buy and sell securities listed on U.S. exchanges that are placed with IIROC dealer members by Canadian investors. The Filer does not execute orders to buy and sell securities on Canadian exchanges that are placed with IIROC dealer members by Canadian investors. The Filer does not and will not conduct cross-border jitney activities for Citadel Canada with respect to trades in securities placed with IIROC dealer members by Canadian investors. The Filer currently relies on section 8.5 [*Trades through or to a registered dealer*] of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* for its cross-border jitney activities.

6. The Ontario Securities Commission (**OSC**) has a supervisory memorandum of understanding (**MOU**) in place with the SEC and FINRA for mutual cooperation and information sharing. The MOU would include oversight of the Filer.

7. The Filer and the Cross Registered Representatives are currently in compliance with all registration and other requirements of applicable securities laws of the United States. The Filer and the Cross Registered Representatives will continue to comply with all registration and other requirements of applicable securities laws of the United States. The Filer and the Cross Registered Representatives are not in default of securities laws of any province or territory of Canada.

8. The Filer currently trades in Canadian securities on a proprietary basis through an investment dealer that is an IIROC dealer member.

9. The Filer plans to transfer this trading activity to Citadel Canada who will trade in Canadian securities on a proprietary basis. An IIROC dealer member, other than Citadel Canada, will continue to clear and settle the trades through a prime brokerage account and a clearing agreement.

10. Citadel Canada plans to hire a sufficient number of Cross Registered Representatives to carry out the activities of Citadel Canada. The Cross Registered Representatives will be employed by Citadel Canada in offices located in Ontario, Canada.

11. The work performed by the Cross Registered Representatives for Citadel Canada will not require a full-time commitment. As the Cross Registered Representatives' employment with Citadel Canada will not be a full-time commitment, the Cross Registered Representatives will trade in Canadian securities for Citadel Canada as principal and in foreign securities for the Filer as principal. All trades made by the Cross Registered Representatives on behalf of Citadel Canada will be trades in securities that are recorded on the Citadel Canada's books and records as principal, that are held in Citadel Canada's name, and that are not held in nominee form for any of Citadel Canada's clients and all trades made by the Cross Registered Representatives on behalf of the Filer will solely be trades in securities on a proprietary basis. The Cross Registered Representatives will not be involved in the cross-border jitney activities described in paragraph 5 above.

12. Citadel Canada has its head office in Toronto, Canada. The Filer operates out of the same premises as Citadel Canada, but has no other offices in Canada.

13. Each Cross Registered Representative is registered under applicable securities laws of the United States in categories or otherwise in a manner that permits such agents to engage in the

U.S. Trading Activities for or on behalf of the Filer and to engage in the U.S. Trading Activities while located in Toronto, Canada. Each Cross Registered Representative is also registered to trade for or on behalf of Citadel Canada under applicable securities laws in Canada. Each Cross Registered Representative is employed by Citadel Canada in offices located in Toronto, Ontario.

14. Each of the Cross Registered Representatives will act in the Jurisdiction on behalf of the Filer in respect of trades in securities on a proprietary basis for or on behalf of the Filer as principal.

15. The Filer is subject to the full oversight and compliance requirements of FINRA and the SEC.

16. Neither the Filer nor any individual acting for or on its behalf will trade in securities for or on behalf of persons or companies who are resident or located in Canada, other than as described in paragraph 5. As the Cross Registered Representatives will trade in Canadian securities for Citadel Canada as principal and in foreign securities for the Filer as principal, the Cross Registered Representatives will not be soliciting or contacting persons or companies that are resident or located in Canada and will not be trading securities with, for or on behalf of persons or companies in Canada, other than Citadel Canada.

17. Where the Cross Registered Representatives trade in securities on a proprietary basis for or on behalf of the Filer as principal, they will comply with all applicable United States securities laws in respect of those trades.

18. The Filer will file with the OSC such reports as to any or all of its trading activities in Canada as the OSC may require from time to time. The Filer will maintain such books, records and other documents as are necessary for the proper recording of its business transactions and financial affairs, and the transactions it executes on behalf of others.

19. The Filer submits that it would not be prejudicial to the public interest for the OSC to grant the Exemption Sought because:

    a. Pursuant to this Ruling, the Cross Registered Representatives will only trade in securities on a proprietary basis for or on behalf of the Filer as principal; and

    b. The Filer and each of its Cross Registered Representatives are appropriately registered to trade securities for or on behalf of the Filer under applicable securities laws of the United States.

20. The Filer will become a "market participant" as defined under subsection 1(1) of the Act as a consequence of the Exemption Sought being granted by the OSC.

Decision

The Decision Maker is satisfied that the decision meets the test set out in the Act for the Decision Maker to make the decision.

The decision of the Decision Maker under the Act is that the Exemption Sought is granted, provided:

a. the trading in securities by Citadel Canada will not require a full-time commitment of the Cross Registered Representatives,

b. the number of Cross Registered Representatives does not exceed 10 people,

c. the only physical presence or offices that the Filer has are the same premises as Citadel Canada, and no other offices in Canada.

d. the Filer and each of the Cross Registered Representatives are in compliance with all applicable licensing and registration requirements under applicable securities laws of the United States,

e. the Filer and the Cross Registered Representatives are permitted to engage in U.S. Trading Activities for or on behalf of the Filer as principal under applicable securities laws of the United States,

f. the Filer is subject to full FINRA and SEC oversight and compliance,

g. the Filer does not solicit, trade or advise in securities with, for or on behalf of persons or companies who are resident or located in Canada, other than the cross-border jitney activities as described in paragraph 5,

h. the Filer does not and will not conduct cross-border jitney for Citadel Canada with respect to trades in securities placed with IIROC dealer members by Canadian investors, as described in paragraph 5.

i. each Cross Registered Representative will only act in the Jurisdiction on behalf of the Filer in respect of trades in securities on a proprietary basis for or on behalf of the Filer as principal, and

j. the Filer files with the OSC all information and records about its trading activities from time to time as required by the OSC.

This Decision shall expire three years after the date hereof.

This Decision may be amended by the OSC from time to time upon prior written notice to the Filer.

"Grant Vingoe"
Commissioner
Ontario Securities Commission

"Judith Robertson"
Commissioner
Ontario Securities Commission

2.2 Orders

2.2.1 Daniel William Yanaky

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

AND

**IN THE MATTER OF
A REQUEST FOR A HEARING AND REVIEW OF
THE DECISION OF A HEARING PANEL OF
THE MUTUAL FUND DEALERS ASSOCIATION OF
CANADA DATED MARCH 17, 2015**

AND

**IN THE MATTER OF
DANIEL WILLIAM YANAKY**

ORDER

WHEREAS:

1. on September 14, 2015, the Ontario Securities Commission (the "Commission") issued a Notice of Hearing, pursuant to sections 8 and 21.7 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended, that a request made by Daniel William Yanaky (the "Applicant") for a Hearing and Review of a decision of a hearing panel of the Mutual Fund Dealers Association of Canada (the "MFDA") dated March 17, 2015 will be heard on February 4, 2016;

2. on January 11, 2016, the Applicant requested that the February 4, 2016 hearing date for the Hearing and Review be adjourned;

3. on January 13, 2016, Staff of the Commission supported by Staff of the MFDA requested that a confidential pre-hearing conference be held;

4. on January 19, 2016, the Registrar of the Commission advised the parties that a confidential pre-hearing conference would be held on February 2, 2016 at 3:00 p.m.;

5. on February 2, 2016, the Applicant and Staff of the MFDA appeared via conference call and Staff of the Commission appeared in person at the confidential pre-hearing conference and made submissions; and

6. the Commission is of the opinion that it is in the public interest to make this order.

IT IS ORDERED that:

1. the February 4, 2016 hearing date scheduled for the Hearing and Review is vacated;

2. the Applicant shall serve and file his memorandum of fact and law by April 27, 2016;

3. Staff of the MFDA and Staff of the Commission shall each file their memorandum of fact and law at least 15 days before the hearing; and

4. the Hearing and Review shall take place on June 2, 2016 at 10:00 a.m. or as soon thereafter as the hearing can be held.

DATED at Toronto, this 8th day of February, 2016.

"Janet Leiper"

"Judith N. Robinson"

"AnneMarie Ryan"

2.2.2 Weizhen Tang – ss. 127(1), 127(10)

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

AND

IN THE MATTER OF
WEIZHEN TANG

ORDER
(Subsections 127(1) and 127(10))

WHEREAS on September 30, 2013, the Ontario Securities Commission (the "Commission") issued a Notice of Hearing pursuant to subsections 127(1) and 127(10) of the *Securities Act*, R.S.O. 1990, c. S.5 as amended (the "Act") accompanied by a Statement of Allegations of Staff of the Commission ("Staff") dated September 30, 2013 with respect to Weizhen Tang ("Tang");

AND WHEREAS the Notice of Hearing stated that a hearing would be held at the offices of the Commission on November 13, 2013;

AND WHEREAS on November 13, 2013, Staff attended the hearing and filed the Affidavits of Service of Jeff Thomson sworn October 4, 2013 demonstrating personal service of the Notice of Hearing and Statement of Allegations on Tang;

AND WHEREAS Tang did not attend the hearing nor was he represented by counsel;

AND WHEREAS Tang's wife attended the hearing and addressed the Panel;

AND WHEREAS on November 13, 2013, Staff requested that the hearing be adjourned to January 2014;

AND WHEREAS the Commission ordered that the hearing be adjourned to January 21, 2014 at 10:00 a.m.;

AND WHEREAS on January 21, 2014, Counsel for Staff attended the hearing and filed the Affidavit of Service of Tia Faerber sworn January 17, 2014 as Exhibit "1" demonstrating service of the Commission's Order dated November 13, 2013 on Tang;

AND WHEREAS Tang did not attend the hearing nor was he represented by counsel;

AND WHEREAS Tang's wife, Hong Xiao, attended the hearing and addressed the Panel;

AND WHEREAS on January 21, 2014, Counsel for Staff requested that the hearing be adjourned to February 24, 2014;

AND WHEREAS on January 21, 2014, the Commission ordered that the hearing be adjourned to February 24, 2014 at 10:00 a.m.;

AND WHEREAS in advance of the hearing on February 24, 2014, Staff filed the Affidavit of Service of Tia Faerber, sworn February 18, 2014 demonstrating service of the Commission's Order dated January 21, 2014 on Tang;

AND WHEREAS on February 24, 2014, Counsel for Staff attended the hearing and made submissions;

AND WHEREAS Tang did not attend the hearing nor was he represented by counsel;

AND WHEREAS Tang's wife, Hong Xiao, attended the hearing and addressed the Panel;

AND WHEREAS the Commission ordered that the hearing be adjourned to October 27, 2014 at 2:00 p.m.;

AND WHEREAS in advance of the hearing on October 27, 2014, Staff filed the Affidavit of Alice Hewitt sworn October 22, 2014 demonstrating service of the Commission's Order dated February 24, 2014 on Tang;

AND WHEREAS on October 27, 2014, Counsel for Staff attended the hearing and made submissions;

AND WHEREAS Tang did not attend the hearing nor was he represented by counsel;

AND WHEREAS the Commission ordered that the hearing be adjourned to April 27, 2015 at 9:00 a.m.;

AND WHEREAS in advance of the hearing on April 27, 2015, Staff filed the Affidavit of Service of Alice Hewitt sworn March 2, 2015 demonstrating service of the Commission's Order dated October 28, 2014 on Tang;

AND WHEREAS on April 27, 2015, Counsel for Staff attended the hearing and made submissions;

AND WHEREAS Tang did not attend the hearing nor was he represented by counsel;

AND WHEREAS on April 27, 2015, the Commission ordered that the hearing be adjourned to September 14, 2015 at 10:00 a.m.;

AND WHEREAS in advance of the hearing on September 14, 2015, Staff filed the Affidavit of Service of Alice Hewitt sworn June 23, 2015 demonstrating service of the Commission's Order dated April 27, 2015 on Tang;

AND WHEREAS on September 14, 2015, Counsel for Staff attended the hearing and made submissions;

AND WHEREAS Tang attended the hearing and made submissions;

AND WHEREAS the Commission ordered that the hearing be adjourned to October 2, 2015 at 9:00 a.m.;

AND WHEREAS in advance of the hearing on October 2, 2015, Staff filed the Affidavit of Alice Hewitt sworn September 23, 2015 demonstrating service of the Commission's Order dated September 14, 2015 on Tang;

AND WHEREAS on October 2, 2015, Counsel for Staff attended the hearing and made submissions;

AND WHEREAS Tang attended the hearing and made submissions;

AND WHEREAS on October 2, 2015, the Commission ordered that a pre-hearing conference be scheduled for Friday, November 6, 2015 at 9:00 a.m., and the hearing on the merits (the "Merits Hearing") be scheduled for January 13, 14 and 15, 2016;

AND WHEREAS in advance of the pre-hearing conference on November 6, 2015, Staff filed the Affidavit of Service of Alice Hewitt sworn October 7, 2015 demonstrating service of the Commission's Order dated October 2, 2015 on Tang and Staff also filed the Affidavit of Service of Anne Paiement sworn October 5, 2015 demonstrating service of Staff's first tranche of disclosure relating to this proceeding on Tang;

AND WHEREAS in advance of the pre-hearing conference on November 6, 2015, Tang filed Pre-Hearing Conference Submissions, expressing his intention to call a number of investors and current and former Commission staff members as witnesses;

AND WHEREAS in advance of the pre-hearing conference on November 6, 2015, Tang brought an application seeking relief pertaining to the freezing of certain funds held on behalf of corporations controlled by Tang, by Order of the Ontario Superior Court of Justice (the "Frozen Funds Application");

AND WHEREAS on November 6, 2015, Counsel for Staff attended the pre-hearing conference and made submissions and Tang attended the pre-hearing conference and made submissions;

AND WHEREAS on November 11, 2015, the Commission ordered that:

(a) Subject to the authority of the Panel presiding over the Merits Hearing, Tang shall not be permitted to summon as witnesses at the Merits Hearing any of the three Staff members identified as prospective witnesses in Tang's Pre-Hearing Conference Submissions;

(b) Subject to the authority of the Panel presiding over the Merits Hearing, Tang shall be permitted to summon no more than six investor witnesses at the Merits Hearing unless Tang provides the Panel with compelling reasons for doing so;

(c) Subject to the authority of the Panel presiding over the Merits Hearing, the evidence that Tang may lead at the

Merits Hearing shall be restricted to matters relevant to the appropriate sanction or sanctions that may be imposed on Tang under subsection 127(10) of the *Securities Act*;

(d) Tang shall file and serve witness statements for the witnesses he intends to summon by no later than November 20, 2015, setting out their names and disclosing the substance of their anticipated evidence at the hearing on the merits;

(e) Any hearing of the Frozen Funds Application, which would include a determination of the authority of a Panel to grant any relief in respect of such Application, shall be adjourned *sine die* pending the disposition of the motion brought by Representative Counsel before the Superior Court of Justice and served on Tang on November 6, 2014;

(f) Staff shall advise the Commission, through the office of the Secretary, of the disposition of such motion by Representative Counsel and, if the motion is not disposed of in a timely fashion, Staff shall so alert the office of the Secretary for the purpose of permitting the Frozen Funds Application to be spoken to further;

(g) Staff and Tang shall each deliver a Hearing Brief by no later than December 1, 2015; and

(h) A further pre-hearing conference shall be held on November 25, 2015 at 9:00 a.m.;

AND WHEREAS in advance of the pre-hearing conference on November 25, 2015, Staff filed the Affidavit of Service of Lee Crann sworn November 23, 2015 demonstrating service of the Commission's Order dated November 11, 2015 on Tang, and the Affidavit of Service of Anne Paiement sworn November 6, 2015, demonstrating service of Staff's second tranche of disclosure relating to this proceeding on Tang;

AND WHEREAS Tang failed to deliver witness statements on or before November 20, 2015;

AND WHEREAS on November 25, 2015, Tang and Counsel for Staff attended the pre-hearing conference and made submissions;

AND WHEREAS on November 27, 2015, the Commission ordered that:

(a) Tang shall file witness statements for the witnesses he intends to summon by no later than December 18, 2015, setting out their names and disclosing the substance of their anticipated evidence at the Merits Hearing;

(b) Staff and Tang shall each deliver a Hearing Brief by no later than December 18, 2015;

(c) A further pre-hearing conference is scheduled for December 18, 2015 at 9:00 a.m.; and

(d) The hearing dates of January 13, 14, and 15, 2016 scheduled for the Merits Hearing are vacated, and the Merits Hearing shall take place on February 17, 18, and 19, 2016.

AND WHEREAS in advance of the pre-hearing conference on December 18, 2015, Staff filed the Affidavit of Service of Lee Crann, sworn December 14, 2015, demonstrating service of the Commission's Order dated November 27, 2015 on Tang;

AND WHEREAS Tang failed to deliver witness statements or a Hearing Brief on or before December 18, 2015;

AND WHEREAS on December 18, 2015, Tang and Counsel for Staff attended the pre-hearing conference and made submissions;

AND WHEREAS on December 18, 2015 the Commission ordered that:

(a) Tang shall file witness statements for the witnesses he intends to request the Commission to summons by no later than January 8, 2016, setting out the names of the witnesses, their addresses, and disclosing the substance of their anticipated evidence at the Merits Hearing;

(b) Tang shall not be permitted to file a Hearing Brief without leave of the Panel; and

(c) A further pre-hearing conference is scheduled for January 18, 2016 at 9:00 a.m.;

AND WHEREAS in advance of the pre-hearing conference on January 18, 2016, Staff filed the Affidavit of Service of Martha Reilly sworn January 5, 2016, demonstrating service of the Commission's Order dated December 18, 2015 on Tang;

AND WHEREAS in advance of the pre-hearing conference on January 18, 2016, Tang delivered a list of witnesses he intends to request the Commission to summons;

AND WHEREAS throughout this proceeding, Tang has delivered a number of documents to the

Commission and Staff in a manner inconsistent with the service and filing rules in the Commission's *Rules of Procedure*;

AND WHEREAS on January 18, 2016 Tang and Counsel for Staff attended the pre-hearing conference and made submissions;

AND WHEREAS on January 18, 2016, Tang requested the Commission issue summonses to witnesses for the Merits Hearing;

AND WHEREAS on January 20, 2016, the Commission ordered that:

(a) In the event that more than six investor witnesses appear at the Merits Hearing, Tang shall be permitted to examine no more than six investor witnesses unless Tang provides the Panel with compelling reasons for doing so;

(b) Mandarin/English and English/Mandarin interpretation services will be provided for the Merits Hearing. The interpretation services will be limited to the translation of *viva voce* evidence presented by Tang and Staff and will not include the translation of documents; and

(c) Any document that has been delivered by Tang in a manner inconsistent with the Commission's *Rules of Procedure* will not be considered to have been filed and will not be subject to consideration by the Panel. If Tang wishes to rely on any such documentary evidence at the Merits Hearing, he must tender such documentary evidence at the Merits Hearing and the Panel will determine its admissibility on a document-by-document basis; and

AND WHEREAS the Commission is of the opinion that it is in the public interest to make this Order.

IT IS ORDERED THAT:

The parties shall attend a confidential pre-hearing conference at 9:00 a.m. on February 17, 2016.

DATED at Toronto this 10th day of February, 2016.

"Chistopher Portner"

2.2.3 Immunall Science Inc. – s. 144

Headnote

Application by an issuer for a revocation of a cease trade order issued by the Commission – cease trade order issued because the issuer had failed to file certain continuous disclosure materials required by Ontario securities law – defaults subsequently remedied by bringing continuous disclosure filings up-to-date – cease trade order revoked.

Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 127, 144.

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

AND

IN THE MATTER OF
IMMUNALL SCIENCE INC.

ORDER
(Section 144)

WHEREAS the securities of IMMUNALL SCIENCE INC. (the **Issuer**) are subject to a cease trade order made by the Director dated May 25, 2015 (the **Permanent Order**), pursuant to subsections 127(1) and 127(5) of the Act directing that all trading in the securities of the Issuer, whether direct or indirect, cease until the Permanent Order is revoked by the Director;

AND WHEREAS the Permanent Order was made on the basis that the Issuer was in default of certain filing requirements under Ontario securities law as described in the Permanent Order and outlined below;

AND WHEREAS the Issuer has made an application to the Ontario Securities Commission (the **Commission**) for revocation of the Permanent Order pursuant to section 144 of the Act;

AND UPON the Issuer having represented to the Commission that:

1. The Issuer was incorporated under the laws of Alberta under the name "Immunall Scientific Inc." on November 22, 2005. On June 13, 2007, the Issuer was acquired by Pancontinental Energy Inc. (**Pancon**), a public company, in a reverse takeover transaction (the **RTO**). Subsequent to the RTO, Pancon changed its name to "Immunall Science Inc." On December 31, 2007, the Issuer amalgamated with Immunall Science Inc. to form a resulting entity under the name of "Immunall Science Inc." On March 31, 2011, the Issuer amalgamated with Altius Edge Ltd. to form a

resulting entity under the name "Immunall Science Inc."

2. The Issuer is a scientific research and development company with a head office at 10979 – 127 Street, Edmonton, Alberta T5M 0T1.

3. The Issuer a reporting issuer under the securities legislation of the provinces of Alberta, British Columbia, and Ontario (the **Reporting Jurisdictions**) only, and is not a reporting issuer in any other jurisdiction. The Alberta Securities Commission is the principal regulator of the Issuer.

4. The Issuer's common shares (**Common Shares**) are listed for trading on the Canadian Securities Exchange (**CSE**) under the trading symbol GNS, however, trading is currently subject to a regulatory halt. The Common Shares are only listed for trading on the CSE and the Issuer is not listed for trading of any of its securities on any other exchange, marketplace or facility.

5. The Issuer has authorized capital of an unlimited number of Common Shares without par value, 20,000,000 preferred shares (the **Preferred Shares**), and 20,000,000 redeemable shares (the **Redeemable Shares**). As at the date hereof, the Issuer has not issued any Preferred Shares or Redeemable Shares, and 33,435,762 Common Shares are issued and outstanding.

6. The Commission made the decision ordering that trading cease in respect of the securities of the Issuer because the Issuer failed to file the following continuous disclosure materials as required by Ontario securities law:

   (a) audited annual financial statements for the year ended December 31, 2014 (**2014 Financial Statements**);

   (b) management's discussion and analysis relating to the 2014 Financial Statements (**2014 MD&A**); and

   (c) certification of the foregoing filings as required by National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (the **NI 52-109 Certificates**).

7. A temporary cease trade order was made by the Director on May 12, 2015, which order was then subsequently extended on May 25, 2015 until further order of the Director.

8. The Issuer is also subject to a cease trade order from the Alberta Securities Commission on May 6, 2015 (the **Alberta Order**), for failure of the Issuer to file the 2014 Financial Statements, 2014 MD&A and NI 52-109 Certificates. The Issuer has applied for a revocation of the Alberta Order concurrent with its application to the Commission.

9. The Issuer is also subject to a cease trade order from the British Columbia Securities Commission on May 8, 2015, for failure of the Issuer to file the 2014 Financial Statements, 2014 MD&A and NI 52-109 Certificates. The Issuer has applied for a revocation of the cease trade order issued by the British Columbia Securities Commission concurrent with its application to the Commission.

10. The Issuer has filed with the securities regulator or securities regulatory authority in each of the Reporting Jurisdictions (the **Authorities**) all continuous disclosure that it is required to file under the securities legislation of the Reporting Jurisdictions, except any continuous disclosure that the Authorities elected not to require as contemplated in sections 3.1(2) and (3) of National Policy 12-202 *Revocation of a Compliance-Related Cease Trade Order* (**NP 12-202**), and has paid all activity, participation and late filing fees that it is required to pay to the Authorities.

11. Since the date of issuance of the Permanent Order, the Issuer has filed, among other things, the following continuous disclosure documents with the Authorities:

   (a) The 2014 Financial Statements;

   (b) The 2014 MD&A;

   (c) The NI 52-109 Certificates;

   (d) condensed interim financial statements for the three month period ended March 31, 2015 (the **Q1 Financial Statements**);

   (e) management's discussion and analysis relating to the Q1 Financial Statements (the **Q1 MD&A**);

   (f) certification of the Q1 Financial Statements and Q1 MD&A as required by National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (the **Q1 52-109 Certificates**);

   (g) condensed interim financial statements for the three and six-month periods ended June 30, 2015 and 2014 (the **Q2 Financial Statements**);

   (h) management's discussion and analysis relating to the Q2 Financial Statements (the **Q2 MD&A**);

   (i) certification of the Q2 Financial Statements and Q2 MD&A as required by

National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (the **Q2 52-109 Certificates**);

(j) condensed interim financial statements for the nine months ended September 30, 2015 (the **Q3 Financial Statements**);

(k) management's discussion and analysis relating to the Q3 Financial Statements (the **Q3 MD&A**);

(l) certification of the Q3 Financial Statements and Q3 MD&A as required by National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (the **Q3 52-109 Certificates**);

(m) amended and restated management discussion and analysis relating to the 2014 Financial Statements (the **Amended and Restated 2014 MD&A**); and

(n) certification of the foregoing as required by National Instrument 52-109 (the **52-109 Certificates of Re-filing**)

The 2014 Financial Statements, 2014 MD&A, the NI 52-109 Certificates, the Q1 Financial Statements, the Q1 MD&A, the Q1 52-109 Certificates, the Q2 Financial Statements, the Q2 MD&A and the Q2 52-109 Certificates were filed with the Authorities on July 31, 2015. The Q3 Financial Statements, the Q3 MD&A and the Q3 52-109 Certificates were filed with the Authorities on November 30, 2015. The Amended and Restated 2014 MD&A and 52-109 Certificates of Re-filing were filed with the Authorities on December 23, 2015.

12. Since the date of the issuance of the Permanent Order, there have been no undisclosed material changes in the business, operations or affairs of the Issuer.

13. The Issuer has an up-to-date SEDAR profile and SEDI issuer profile supplement.

14. The Issuer acknowledges that entering into a $50,000 credit facility while subject to the Permanent Order may have contravened the Permanent Order.

15. The Issuer is (i) up-to-date with all of its continuous disclosure obligations; (ii) is not in default of any of its obligations under the Permanent Order; and (iii) is not in default of any of the requirements under the rules and regulations made pursuant thereto.

16. The Issuer undertakes, in accordance with Section 3.1(5) of NP 12-202, to hold an annual meeting of its shareholders within three months of the date on which the Permanent Order is revoked.

17. The Issuer's current directors and executive officers are: M. Frank Phillet, Chief Executive Officer and a director; Craig McLennan, Chief Financial Officer and a director; and Bret Smith, a director. M. Frank Phillet was appointed as Chief Executive Officer on March 1, 2010. Craig McLennan was appointed as Chief Financial Officer on June 16, 2007. M. Frank Phillet, Craig McLennan and Bret Smith were most recently elected as directors of the Issuer at the last Annual General Meeting of the Issuer, held on June 20, 2012. The Issuer has no current or incoming directors, executive officers or promoters other than those disclosed herein.

18. M. Frank Phillet beneficially owns, and exercises control or direction over, 6,131,087 Common Shares of the Issuer, representing 18.34% of the Issuer's issued and outstanding Common Shares. To the knowledge of the directors and management of the Issuer, no other shareholder of the Issuer beneficially owns, directly or indirectly, or exercises control or direction over common shares carrying more than 10% of the voting rights attaching to the common shares of the Issuer, common shares being the only class of voting securities of the Issuer.

19. The Issuer is not considering nor is it involved in any discussions related to a reverse take-over, merger, amalgamation or other form of combination or transaction similar to any of the foregoing.

20. Upon issuance of this revocation order, the Issuer will issue a news release announcing the revocation and concurrently file the news release and a Material Change Report on SEDAR.

AND UPON considering the application and the recommendation of the staff of the Commission;

AND UPON the Director being satisfied that it would not be prejudicial to the public interest to revoke the Permanent Order;

IT IS ORDERED pursuant to section 144 of the Act that the Permanent Order is revoked.

DATED this 9th day of February, 2016.

"Kathryn Daniels"
Deputy Director, Corporate Finance
Ontario Securities Commission

2.2.4 Welcome Place Inc. et al. – s. 127

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

AND

IN THE MATTER OF
WELCOME PLACE INC.,
DANIEL MAXSOOD also known as MUHAMMAD M. KHAN,
TAO ZHANG, and TALAT ASHRAF

ORDER
(Section 127)

WHEREAS:

1. on July 2, 2013, the Ontario Securities Commission (the "Commission") issued a temporary order (the "Temporary Order"), pursuant to subsections 127(1) and (5) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act"), ordering that:

    a. all trading in any securities by Welcome Place Inc. ("Welcome Place"), Daniel Maxsood also known as Muhammad M. Khan ("Maxsood"), Tao Zhang ("Zhang"), and Talat Ashraf ("Ashraf") (collectively, the "Respondents") shall cease;

    b. the exemptions contained in Ontario securities law do not apply to any of Welcome Place, Maxsood, Zhang, and Ashraf; and

    c. the Temporary Order shall expire on the 15th day after its making unless extended by the Commission;

2. on July 2, 2013, the Commission issued a Notice of Hearing to consider, among other things, the extension of the Temporary Order, to be held on July 12, 2013 at 11:30 a.m.;

3. on July 12, 2013, the Commission held a Hearing at which counsel for Welcome Place and Maxsood attended and no one attended on behalf of Zhang or Ashraf, although properly served. Upon reviewing the evidence, hearing submissions from Staff and counsel for Welcome Place and Maxsood, and upon being advised that Welcome Place and Maxsood consented to the extension of the Temporary Order to January 31, 2014, the Commission ordered;

    a. pursuant to subsections 127(7) and (8) of the Act, the Temporary Order is extended to January 31, 2014, and specifically that:

        i. all trading in any securities by Welcome Place, Maxsood, Zhang, and Ashraf shall cease;

        ii. the exemptions contained in Ontario securities law do not apply to any of Welcome Place, Maxsood, Zhang, and Ashraf; and

        iii. this Order shall not affect the right of any Respondent to apply to the Commission to clarify, amend, or revoke this Order upon seven days written notice to Staff of the Commission; and

    b. that the Hearing is adjourned to Monday, January 27, 2014 at 10:00 a.m.;

4. on January 27, 2014, the Commission held a Hearing with respect to the extension of the Temporary Cease Trade Order, and Staff appeared and made submissions. No one appeared for the Respondents, but a written consent to the extension of the Temporary Order was filed and considered by the Commission. The Commission ordered pursuant to subsections 127(7) and (8) of the Act that the Temporary Order is extended until the final disposition of the proceeding resulting from Staff's investigation in this matter, including, if appropriate, any final determination with respect to sanctions and costs, or further Order of the Commission, and specifically that:

    a. all trading in any securities by Welcome Place, Maxsood, Zhang, and Ashraf shall cease;

    b. the exemptions contained in Ontario securities law do not apply to any of Welcome Place, Maxsood, Zhang, and Ashraf; and

c. this Order shall not affect the right of any Respondent to apply to the Commission to clarify, amend, or revoke this Order upon seven days written notice to Staff of the Commission;

5. on December 18, 2014, the Commission issued a Notice of Hearing pursuant to sections 127 and 127.1 of the Act, providing that a hearing would be held at the Commission on February 2, 2015. The Notice of Hearing was accompanied by a Statement of Allegations dated December 18, 2014, issued by Staff with respect to the Respondents;

6. on December 19, 2014, the Respondents were served with the Notice of Hearing and Statement of Allegations;

7. on February 2, 2015, a first appearance was held before the Commission at which Staff appeared and counsel appeared and confirmed his attendance on behalf of each of the Respondents. The Commission determined that the parties should return for a second attendance after disclosure was provided to the Respondents, and ordered that the hearing of this matter was adjourned and shall continue on May 27, 2015 at 11:00 a.m. or on such other date or time set by the Office of the Secretary and agreed to by the parties;

8. on May 27, 2015, a second appearance was held before the Commission at which Staff appeared in person and counsel participated by telephone, confirming his attendance on behalf of each of the Respondents. The Panel heard submissions from Staff indicating that disclosure of Staff's documents and Staff's witness list had been made, and Staff requested dates for similar disclosure by the Respondents. The Panel heard submissions from counsel for the Respondents with respect to these requests, and ordered that:

   a. the Respondents will make disclosure to Staff of their witness lists and summaries, and indicate any intent to call an expert by June 22, 2015; and

   b. the hearing of this matter is adjourned and shall continue on July 22, 2015 at 11:00 a.m. or on such other date or time set by the Office of the Secretary and agreed to by the parties;

9. on July 22, 2015, a third appearance was held before the Commission at which Staff appeared and counsel appeared on behalf of each of the Respondents. The Panel heard submissions from Staff indicating that the Respondents have now made disclosure to Staff of their witness lists and summaries, and no intent to call an expert has been disclosed. Staff requested dates be set for the hearing of the merits and a final interlocutory attendance. The Panel heard submissions from counsel for the Respondents with respect to these requests, and ordered that:

   a. the hearing on the merits shall commence on January 25, 2016 at 10:00 a.m. and shall continue on January 27, 28, 29, February 1, 2, 3, 4, 5, 8, 10, 11, and 12, 2016, or on such further or other dates as may be agreed upon by the parties and fixed by the Office of the Secretary;

   b. a final interlocutory attendance shall take place on January 7, 2016 at 10:00 a.m; and

   c. the parties shall deliver Hearing Briefs to every other party by December 18, 2015;

10. on January 15, 2016, a confidential pre-hearing conference was held before the Commission at which Staff and counsel for the Respondents appeared and made submissions requesting that the hearing scheduled in this matter be adjourned to a later date. The Panel ordered that:

    a. the dates for the hearing on the merits previously scheduled to commence on January 25 and continue on January 27, 28 and 29, and February 1, 2, 3, 4, 5, 8 and 10, 2016 are vacated; and

    b. the hearing on the merits shall commence on February 11, 2016 at 10:00 a.m. and shall continue on February 12, 2016, or on such further or other dates as may be ordered by the Commission;

11. on February 10, 2016, the Respondents entered into a Settlement Agreement with Staff in relation to the matters set out in the Statement of Allegations;

12. on February 11, 2016, the Commission issued a Notice of Hearing, setting out that it proposed to consider the Settlement Agreement;

13. a hearing was held before the Commission on February 11, 2016 regarding the Settlement Agreement at which Staff and counsel for the Respondents appeared and made submissions and the Commission made an order approving the Settlement Agreement;

14. the Commission is of the opinion that it is in the public interest to make this Order.

IT IS ORDERED that:

1. the dates for the hearing on the merits previously scheduled to commence on February 11, 2016 and continue on February 12, 2016 are vacated.

DATED at Toronto this 11th day of February, 2016.

"Edward P. Kerwin"

2.2.5 Andrew Peller Limited – s. 104(2)(c)

Headnote

Subsection 104(2)(c) of the Act – Issuer bid – relief from issuer bid requirements in sections 94 to 94.8 and 97 to 98.7 of the Act – Issuer proposes to purchase up to 564,691 of its class A non-voting shares from a holding company controlled by a director and former officer of the Issuer – 86.7% of the voting shares of the holding company are held by the director and former officer of the Issuer and the remaining 13.3% of the voting shares are held by the director and former officer's family – if the Issuer purchased the subject shares directly from the director and former officer, such purchase would be exempt from the issuer bid requirements in reliance on the employee, executive officer, director and consultant exemption set out in section 101.1 of the Act – the independent directors of the Issuer determined that the purchase of subject shares was in the best interests of the Issuer and its shareholders and have no actual knowledge that the purchase of subject shares will be prejudicial to the interests of any of the Issuer's shareholders – proposed purchases of subject shares exempt from the issuer bid requirements in section 94 to 94.8 and 97 to 98.7 of the Act, subject to conditions, including that the subject shares purchased under the order, when aggregated with all other class A shares acquired by the Issuer in reliance on the exemption set out in section 101.1 of the Act within any period of 12 months, will not exceed 5% of the issued and outstanding class A shares at the beginning of such 12 month period, the purchase price per subject share paid in connection with purchases made pursuant to the order will not exceed the market price of the class A non-voting shares on the date of such purchase, and the Issuer will issue and file a news release at least seven days in advance of any purchase of subject shares pursuant to the order and will report information relating to such purchase on SEDAR the day following such purchase.

Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 94 to 94.8, 97 to 98.7, 104(2)(c).

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

AND

IN THE MATTER OF
ANDREW PELLER LIMITED

ORDER
(Clause 104(2)(c))

UPON the application (the "**Application**") of Andrew Peller Limited (the "**Issuer**") to the Ontario Securities Commission (the "**Commission**") for an order pursuant to clause 104(2)(c) of the *Securities Act* (Ontario) (the "**Act**") exempting the Issuer from the requirements of sections 94 to 94.8, inclusive, and 97 to 98.7, inclusive, of the Act (the "**Issuer Bid Requirements**") in connection with the proposed purchase by the Issuer from Jalger Limited ("**Jalger**"), a holding company controlled by a director and former officer of the Issuer, of up to 564,691 Class A non-voting shares of the Issuer (the "**Subject Shares**") during the 12 month period commencing on the date hereof;

AND UPON considering the Application and the recommendation of staff of the Commission;

AND UPON the Issuer (and Jalger in respect of paragraphs 6, 7, 8 and 9 as they relate to Jalger) having represented to the Commission that:

1. The Issuer is a corporation existing under the *Canada Business Corporations Act* (the "**CBCA**") with its registered and head office located at 697 South Service Road, Grimsby, Ontario, L3M 4E8.

2. The Issuer is a reporting issuer in each of the provinces and territories of Canada other than Manitoba (the "**Jurisdictions**") and is not in default of any requirement of the securities legislation in any of the Jurisdictions.

3. The authorized capital of the Issuer consists of an unlimited number of Class A non-voting shares (the "**Class A Shares**"), an unlimited number of Class B voting shares (the "**Class B Shares**") and an unlimited number of preference shares issuable in series, of which 11,293,829 Class A Shares, 3,004,041 Class B Shares and no preference shares were issued and outstanding as at January 11, 2016.

4. The Class A Shares and Class B Shares are listed on the Toronto Stock Exchange (the "**TSX**") under the symbols "ADW.A" and "ADW.B", respectively.

5. To the knowledge of the directors and officers of the Issuer, as at January 11, 2016, the only persons who beneficially own, directly or indirectly, more than 10% of the outstanding Class A Shares or Class B Shares are: (i) Dr. Joseph A. Peller ("**Dr. Peller**"), who controls, directly and indirectly, an aggregate of 1,558,435 Class A Shares and 1,999,404 Class B Shares, representing 13.8% and 66.6% of the issued and outstanding Class A Shares and Class B Shares, respectively (collectively, the "**Dr. Peller Shares**"); (ii) Mr. John E. Peller, who owns an aggregate of 1,459,847 Class A Shares, representing 12.9% of the issued and outstanding Class A Shares; and (iii) Mr. E.J. Kernaghan, who controls, directly and indirectly, an aggregate of 1,314,000 Class A Shares and 328,200 Class B Shares, representing 11.6% and 10.9% of issued and outstanding Class A Shares and Class B Shares, respectively.

6. The Dr. Peller Shares include 1,557,067 Class A Shares and 1,998,036 Class B Shares, all of which are held indirectly by Dr. Peller through Jalger. Dr. Peller is currently a director of the Issuer and has formerly served as Chairman of the board of directors and as President and Chief Executive Officer of the Issuer.

7. Jalger is a holding company that neither carries on any active business nor owns any material assets other than cash and Class A Shares and Class B Shares, including substantially all of the Dr. Peller Shares. Dr. Peller beneficially owns, directly or indirectly, approximately 86.7% of the issued and outstanding voting shares of Jalger. The remaining approximately 13.3% of the issued and outstanding voting shares of Jalger are beneficially owned, directly or indirectly, by Dr. Peller's six children (three of such six children are current directors of the Issuer).

8. The Issuer proposes to enter into one or more share purchase agreements (each, a "**Purchase Agreement**") with Dr. Peller and Jalger pursuant to which, conditional upon receipt of this Order, the Issuer intends to purchase up to 196,000 of the Subject Shares in early 2016 (the "**Initial Purchase**") and may from time to time thereafter during the 12 months following the date of this Order, purchase up to an additional 368,691 Subject Shares (each such purchase of Subject Shares, including the Initial Purchase, a "**Subject Share Purchase**"). The aggregate number of Subject Shares purchased pursuant to the Purchase Agreements will not exceed 5% of the issued and outstanding Class A Shares as at January 11, 2016, and the purchase price (the "**Purchase Price**") payable in connection with each Subject Share Purchase will not exceed the aggregate market price of the Class A Shares at the date of such Subject Share Purchase, determined in accordance with section 1.3 of OSC Rule 62-504 *Take-Over Bids and Issuer Bids* ("**OSC Rule 62-504**").

9. Other than the Purchase Price, no additional fee or other consideration will be paid in connection with any Subject Share Purchase.

10. If the Subject Shares were held directly by Dr. Peller and purchased by the Issuer from Dr. Peller, such purchase would be exempt from the Issuer Bid Requirements in reliance on section 101.1 of the Act since Dr. Peller is a former officer and employee of the Issuer and is currently a director of the Issuer.

11. All of the directors of the Issuer who are "independent" for the purposes of National Instrument 58-101 *Disclosure of Corporate Governance Practices* (the "**Independent Directors**") have determined that the purchase of the Subject Shares from Jalger is in the best interests of the Issuer and its shareholders and is a prudent use of the Issuer's surplus cash given its current circumstances. In making this determination, the Independent Directors considered, among other things:

    (a) the modest trading volume of the Class A Shares on the TSX and the potentially adverse effect on the market price of the Class A Shares if Jalger were to attempt to sell some or all of the Subject Shares through the facilities of the TSX;

    (b) the Issuer's planned capital expenditures and anticipated future cash requirements;

    (c) the impact of the Subject Share Purchases, including the reduction of concentration of ownership of the Issuer currently held directly and indirectly by Dr. Peller; and

    (d) a certificate of the Chief Financial Officer of the Issuer certifying that after each Subject Share Purchase, the Issuer will be in compliance with the solvency requirements set forth in section 34(2) of the CBCA, being that there are no reasonable grounds for believing that the Issuer is, or would after payment of the Purchase Price payable in connection with the applicable Subject Share Purchase be, unable to pay its liabilities as they become due, or the realizable value of the Issuer's assets would after the payment of the Purchase Price payable in connection with the applicable Subject Share Purchase be less than the aggregate of its liabilities and the stated capital of all classes.

12. The Independent Directors have no actual knowledge that any Subject Share Purchase will be prejudicial to the interests of any of the Issuer's shareholders.

AND UPON the Commission being satisfied to do so would not be prejudicial to the public interest;

IT IS ORDERED pursuant to clause 104(2)(c) of the Act that the Issuer be exempt from the Issuer Bid Requirements in connection with the Subject Share Purchases, provided that:

(a) the Issuer issues and files a news release not less than seven days in advance of any Subject Share Purchase disclosing (i) its intention to make the Subject Share Purchase, (ii) the anticipated timing of such Subject Share Purchase, and (iii) that information regarding such Subject Share Purchase, including the number of Subject Shares purchased and the aggregate Purchase Price, will be available on the System for Electronic Document Analysis and Retrieval (SEDAR) following the completion of such Subject Share Purchase;

(b) the Issuer will report information regarding each Subject Share Purchase, including the number of Subject Shares purchased and the aggregate Purchase Price, on SEDAR before 5:00 p.m. (Toronto time) on the business day following such Subject Share Purchase;

(c) the number of Subject Shares purchased from Jalger pursuant to this Order, when aggregated with all other Class A Shares acquired by the Issuer within any period of 12 months in reliance on the employee, executive officer, director and consultant exemption set out in section 101.1 of the Act, shall not exceed 5% of the issued and outstanding Class A Shares at the beginning of such 12 month period;

(d) the Purchase Price per Subject Share paid in connection with each Subject Share Purchase will not exceed the market price of the Class A Shares at the date of such Subject Share Purchase, determined in accordance with section 1.3 of OSC Rule 62-504; and

(e) at the time each Purchase Agreement is entered into, and at the time of each Subject Share Purchase, neither the Issuer, Dr. Peller nor Jalger will be aware of any “material change” or “material fact” (each as defined in the Act) in respect of the Issuer or the Class A Shares that has not been generally disclosed.

DATED at Toronto, Ontario this 12th day of February, 2016.

“Judith Robertson”
Commissioner
Ontario Securities Commission

“Tim Moseley”
Commissioner
Ontario Securities Commission

2.2.6 Authorization Order – s. 3.5(3)

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

AND

IN THE MATTER OF
AN AUTHORIZATION PURSUANT TO SUBSECTION 3.5(3) OF THE ACT

AUTHORIZATION ORDER
(Subsection 3.5(3))

WHEREAS a quorum of the Ontario Securities Commission (the "Commission") may, pursuant to subsection 3.5(3) of the Act, in writing authorize any member of the Commission to exercise any of the powers and perform any of the duties of the Commission, including the power to conduct contested hearings on the merits.

AND WHEREAS, by an authorization order made on November 17, 2015, pursuant to subsection 3.5(3) of the Act ("Authorization"), the Commission authorized each of MONICA KOWAL, D. GRANT VINGOE, MARY G. CONDON, EDWARD P. KERWIN, JANET LEIPER, ALAN J. LENCZNER, TIMOTHY MOSELEY, and CHRISTOPHER PORTNER acting alone, to exercise, subject to subsection 3.5(4) of the Act, the powers of the Commission to grant adjournments and set dates for hearings, to hear and determine procedural matters, and to make and give any orders, directions, appointments, applications and consents under sections 5, 11, 12, 17, 19, 20, 122, 126, 127, 128, 129, 144, 146 and 152 of the Act that the Commission is authorized to make and give, including the power to conduct contested hearings on the merits.

NOW, THEREFORE, IT IS ORDERED that the Authorization is hereby revoked;

THE COMMISSION HEREBY AUTHORIZES, pursuant to subsection 3.5(3) of the Act, each of MAUREEN JENSEN, MONICA KOWAL, D. GRANT VINGOE, MARY G. CONDON, EDWARD P. KERWIN, JANET LEIPER, ALAN J. LENCZNER, TIMOTHY MOSELEY, and CHRISTOPHER PORTNER acting alone, to exercise, subject to subsection 3.5(4) of the Act, the powers of the Commission to grant adjournments and set dates for hearings, to hear and determine procedural matters, and to make and give any orders, directions, appointments, applications and consents under sections 5, 11, 12, 17, 19, 20, 122, 126, 127, 128, 129, 140, 144, 146 and 152 of the Act that the Commission is authorized to make and give, including the power to conduct contested hearings on the merits; and

THE COMMISSION FURTHER ORDERS that this Authorization Order shall have full force and effect until revoked or such further amendment may be made.

DATED at Toronto, this 12th day of February, 2016.

"Judith N. Robertson"
Judith N. Robertson , Commissioner

"Timothy Moseley"
Timothy Moseley, Commissioner

2.2.7 Majestic Supply Co. Inc. et al. – s. 127

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

AND

IN THE MATTER OF
MAJESTIC SUPPLY CO. INC., SUNCASTLE DEVELOPMENTS CORPORATION,
HERBERT ADAMS, STEVE BISHOP, MARY KRICFALUSI, KEVIN LOMAN
AND CBK ENTERPRISES INC.

ORDER
(Section 127 of the Securities Act)

WHEREAS:

1. on February 21, 2013, the Ontario Securities Commission ("Commission") issued its Reasons and Decision with respect to the merits (the "Merits Decision"), which found that Kevin Loman ("Loman") and others engaged in conduct in breach of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") (*Re Majestic Supply Co. Inc. et al.* (2013), 36 O.S.C.B. 2104);

2. on November 29, 2013, the Commission issued its Reasons and Decision with respect to sanctions and costs (the "Sanctions Decision") and ordered sanctions and costs against Loman and others (*Re Majestic Supply Co. Inc. et al.* (2013), 36 O.S.C.B. 11642);

3. Loman appealed the Merits Decision and the Sanctions Decision to the Divisional Court of the Ontario Superior Court of Justice (the "Divisional Court");

4. on June 25, 2015, the Divisional Court dismissed the appeal in respect of the Merits Decision but allowed the appeal with respect to certain of the sanctions imposed against Loman, which sanctions were remitted back to the Commission for a fresh determination (*Loman v. Ontario Securities Commission*, 2015 ONSC 4083);

5. on September 15, 2015, the Commission issued a Notice of Hearing notifying that a hearing would proceed at the offices of the Commission on October 30, 2015, or as soon thereafter as the hearing could be held, for a fresh determination of certain sanctions ordered against Loman (the "Hearing");

6. on August 25 and October 5, 2015, the parties exchanged and filed written sanctions submissions in respect of the Hearing;

7. on October 30, 2015, the parties appeared before the Commission, made oral submissions regarding the appropriateness of certain sanctions to be ordered against Loman, took differing views on which of the sanctions were remitted back to the Commission and requested a short adjournment of this matter in order to permit the parties to seek clarification from the Divisional Court;

8. on January 12, 2016, the Divisional Court issued supplementary reasons which enumerated the provisions of the Commission's sanctions order that are remitted for a fresh determination (*Loman v. Ontario Securities Commission*, 2016 ONSC 135) and the parties advised the Commission that they had no further written or oral submissions to make;

9. the Commission has concluded it is in the public interest to make this order;

IT IS HEREBY ORDERED that:

(a) pursuant to clause 2 of subsection 127(1) of the Act, that Loman shall cease trading in securities for a period of 8 years;

(b) pursuant to clause 2.1 of subsection 127(1) of the Act, Loman shall be prohibited from acquiring securities for a period of 8 years;

(c) pursuant to clause 3 of subsection 127(1) of the Act, any exemptions contained in Ontario securities law do not apply to Loman for a period of 8 years;

(d) pursuant to clauses 8, 8.2 and 8.4 of subsection 127(1) of the Act, Loman is prohibited for a period of 8 years from becoming or acting as an officer or director of any issuer, registrant or investment fund manager, except that Loman may act as a director or officer of an issuer that:

i. is wholly owned by one or more of himself or members of his immediate family;

ii. does not issue or propose to issue securities or exchange contracts to the public; and

iii. does not, directly or indirectly, trade in or distribute, advise in respect of trades or distributions of, or promote the purchase or sale of, securities or exchange contracts of any issuer;

(e) pursuant to clause 8.5 of subsection 127(1) of the Act, Loman is prohibited for a period of 8 years from becoming or acting as a registrant, investment fund manager or as a promoter; and

(f) pursuant to clause 9 of subsection 127(1) of the Act, Loman shall pay $60,000 as an administrative penalty, designated for allocation or for use by the Commission in accordance with subsection 3.4(2)(b) of the Act;

DATED at Toronto this 12th day of February, 2016.

"Edward P. Kerwin"

2.3 Orders with Related Settlement Agreements

2.3.1 CI Investments Inc. – ss. 127(1), 127(2), 127.1

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

AND

IN THE MATTER OF
CI INVESTMENTS INC.

ORDER
(Subsections 127(1) and 127(2) and section 127.1)

WHEREAS:

1. On February 5, 2016, the Ontario Securities Commission (the "**Commission**") issued a Notice of Hearing in relation to the Statement of Allegations filed by Staff of the Commission ("**Commission Staff**") on February 5, 2016 with respect to CI Investments Inc. ("**CII**");

2. The Notice of Hearing gave notice that on February 10, 2016, the Commission would hold a hearing to consider whether it is in the public interest to approve a settlement agreement between Commission Staff and CII dated February 5, 2016 (the "**Settlement Agreement**");

3. Commission Staff has alleged that between December 2009 and June 2015, a total of approximately $156.1 million in interest (the "**Interest**") had accumulated in bank accounts set up by seven of CII's mutual funds (the "**Forward Funds**"). The Interest was earned on money deposited by the Forward Funds as collateral for forward purchase agreements that were unique to these Forward Funds. The Interest, however, was not recorded as an asset in the accounts of the respective Forward Funds and not included in the net asset value ("**NAV**") calculation of the Forward Funds. As a result, the NAV of each Forward Fund, and any fund that invested in the Forward Funds (collectively, the "**Affected Funds**"), was understated for several years and unitholders bought and redeemed units at an understated value;

4. Commission Staff has further alleged that CII did not have an adequate system of controls and supervision to sufficiently address the unique cash collateral feature of the Forward Funds and to ensure that the Interest earned in the cash collateral accounts was recorded and included in the NAV calculation of the Forward Funds such that the unitholders' NAV was understated (the "**Forward Fund Control and Supervision Inadequacy**");

5. Commission Staff are satisfied that CII discovered and self-reported the Forward Fund Control and Supervision Inadequacy to Commission Staff;

6. Commission Staff are satisfied that during the investigation of Forward Fund Control and Supervision Inadequacy by Commission Staff, CII provided prompt, detailed and candid cooperation to Commission Staff;

7. Commission Staff are satisfied that CII had formulated an intention to pay appropriate compensation to current and former investors in connection with its report of Forward Fund Control and Supervision Inadequacy to Commission Staff;

8. As part of the Settlement Agreement, CII undertakes to:

   a. Pay appropriate compensation to former and current investors that were affected by the Forward Fund Control and Supervision Inadequacy (the "**Affected Investors**") in accordance with a plan submitted by CII to Commission Staff (the "**Compensation Plan**") and to report to a manager or deputy director in the Compliance and Registrant Regulation Branch of the Commission (the "**OSC Manager**") in accordance with the Settlement Agreement and the Compensation Plan;

   b. Make a voluntary payment of $50,000 to reimburse the Commission for costs incurred or to be incurred by it in accordance with subsection 3.4(2)(a) of the Act; and

   c. Make a further voluntary payment of $8,000,000 to be designated for allocation to or for the benefit of third parties, or for use by the Commission for the purpose of educating investors or promoting or otherwise

enhancing knowledge and information of persons regarding the operation of the securities and financial markets in accordance with subsections 3.4(2)(b)(i) or (ii) of the Act,

(the "**Undertaking**");

9. The Commission will receive the voluntary payments totalling $8,050,000 upon completion of the hearing to approve the Settlement Agreement, which payments are conditional upon approval of the Settlement Agreement by the Commission;

10. The Commission reviewed the Settlement Agreement, the Compensation Plan, the Notice of Hearing and the Statement of Allegations of Commission Staff and heard submissions of counsel for CII and from Commission Staff; and

11. The Commission is of the opinion that it is in the public interest to make this order;

IT IS ORDERED THAT:

a. The Settlement Agreement is approved;

b. Within eight months of the approval of the Settlement Agreement, CII shall submit a letter (the "**Attestation Letter**"), signed by the Ultimate Designated Person and the Chief Compliance Officer of CII, to the OSC Manager, expressing their opinion that the Enhanced Control and Supervision Procedures were adequately followed, administered and enforced by CII for the six month period commencing from the date on which the Settlement Agreement is approved;

c. The Attestation Letter shall be accompanied by a report which provides a description of the testing performed and/or other steps taken to support the conclusions contained in the Attestation Letter;

d. CII shall submit such additional reports as may be requested by the OSC Manager for the purpose of satisfying the OSC Manager that the opinion expressed in the Attestation Letter described in subparagraph (b) above is valid; and

e. CII or Commission Staff may apply to the Commission for directions in respect of any issues that may arise with regard to the implementation of subparagraphs (b) to (d) above.

f. CII shall comply with the Undertaking to:

i. pay compensation to the Affected Investors in accordance with the Compensation Plan and to report to the OSC Manager in accordance with the Settlement Agreement and the Compensation Plan;

ii. make a voluntary payment of $50,000 to reimburse the Commission for costs incurred or to be incurred by it in accordance with subsection 3.4(2)(a) of the Act; and

iii. make a further voluntary payment of $8,000,000, which is designated for allocation to or for the benefit of third parties, or for use by the Commission for the purpose of educating investors or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets in accordance with subsections 3.4(2)(b)(i) or (ii) of the Act.

DATED at Toronto, Ontario this 10th day of February, 2016.

"Christopher Portner"

"D. Grant Vingoe"

"AnneMarie Ryan"

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

AND

IN THE MATTER OF
CI INVESTMENTS INC.

SETTLEMENT AGREEMENT BETWEEN
STAFF OF THE COMMISSION and
CI INVESTMENTS INC.

PART I – INTRODUCTION

1. The Ontario Securities Commission (the "**Commission**") will issue a Notice of Hearing dated February 5, 2016 (the "**Notice of Hearing**") to announce that it will hold a hearing to consider whether, pursuant to sections 127 and 127.1 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "**Act**"), it is in the public interest for the Commission to make certain orders in respect of CI Investments Inc. ("**CII**").

2. CII is a corporation incorporated pursuant to the laws of Ontario. CII is registered with the Commission in a number of categories, including as an Investment Fund Manager and Portfolio Manager.

3. In June 2015, CII self-reported a matter to Staff of the Commission ("**Commission Staff**") relating to certain interest (the "**Interest**") earned on money deposited by seven mutual funds (the "**Forward Funds**") as collateral for forward purchase agreements that were unique to these Forward Funds. The Forward Funds were new products offered by CII which used cash collateral forward purchase agreements in order to achieve tax efficiencies for investors. Since December 2009, approximately $156.1 million in Interest has accumulated in bank accounts set up by each of the Forward Funds; however, as described in Part III below, the Interest was not recorded as an asset in the accounts of the respective Forward Funds and not included in the net asset value ("**NAV**") calculation of the Forward Funds. As a result the NAV of each Forward Fund (and any fund that invested in the Forward Funds) was understated for several years and unitholders bought and redeemed units in the various funds at an understated value. A total of 23 CII mutual funds and 69 segregated funds invested some of their assets, directly or indirectly, in the Forward Funds. The Forward Funds and the CII mutual funds and segregated funds that invested in the Forward Funds are referred to herein as the "**Affected Funds**".

4. When CII self-reported to Commission Staff, it advised Commission Staff that it intended, to the extent possible, to put investors in the Affected Funds back into the economic position they would have been in if the Interest had been recorded. The entire amount of the Interest has been at all times and remains in bank accounts as an asset of the Forward Funds and has never been co-mingled with the property of CII nor did CII earn any management fees on the Interest. As described herein, the Interest will be distributed to the investors in the Affected Funds.

5. During Commission Staff's investigation of the matter, CII provided prompt, detailed and candid co-operation to Commission Staff.

6. As described in Part III below, it is Commission Staff's position that in relation to this matter, CII did not have an adequate system of controls and supervision to sufficiently address the unique cash collateral feature of the Forward Funds and to ensure that the Interest earned in the cash collateral accounts was recorded and included in the NAV calculation of the Forward Funds, such that the unitholders' NAV was understated (the "**Forward Fund Control and Supervision Inadequacy**").

PART II – JOINT SETTLEMENT RECOMMENDATION

7. Commission Staff and CII have agreed to a settlement of the proceedings initiated in respect of CII by the Notice of Hearing (the "**Proceeding**") on the basis of the terms and conditions set out in this settlement agreement (this "**Settlement Agreement**").

8. Pursuant to this Settlement Agreement, Commission Staff agree to recommend to the Commission that the Proceeding be resolved and disposed of in accordance with the terms and conditions contained herein.

9. It is Commission Staff's position that:

a) The statement of facts set out by Commission Staff in Part III below, which is based on an investigation carried out by Commission Staff following the self-reporting by CII, is supported by the evidence reviewed by Commission Staff and the conclusions contained in Part III are reasonable; and

b) It is in the public interest for the Commission to approve this Settlement Agreement, having regard to the following considerations:

i. Commission Staff's allegations are that CII failed to establish, maintain and apply policies and procedures to establish controls and supervision:

A. sufficient to (1) provide reasonable assurance that CII, and each person acting on behalf of CII, complied with securities legislation; (2) manage the risks associated with the development and monitoring of new products in accordance with prudent business practices; (3) ensure that the NAVs of the Forward Funds were accurate; and (4) monitor and supervise its third-party service providers;

B. that were reasonably effective in identifying and promptly correcting the Forward Fund Control and Supervision Inadequacy in a timely manner;

ii. Commission Staff do not allege and have found no evidence of dishonest or intentional misconduct by CII;

iii. CII discovered and self-reported the failure to properly record the Interest as an asset of the Forward Funds;

iv. The Interest remained in bank accounts established for the Forward Funds and has never been co-mingled with assets of CII;

v. During the investigation of the Forward Fund Control and Supervision Inadequacy following the self-reporting, CII provided prompt, detailed and candid cooperation to Commission Staff;

vi. When it self-reported the failure to properly record the Interest as an asset of the Forward Funds, CII stated an intention, to the extent possible, to put former and current investors in the Affected Funds who purchased units of Affected Funds prior to May 31, 2015 (the "**Affected Investors**") back into the economic position they would have been in if this matter had not occurred;

vii. As part of this Settlement Agreement, CII has agreed to pay an amount equal to the Interest to Affected Investors, and other appropriate compensation, in accordance with a plan submitted by CII to Commission Staff and presented to the Commission (the "**Compensation Plan**"), and will begin to implement the Compensation Plan within 45 days of CII completing its testing of the Compensation Plan model, unless Commission Staff consent to a later date. CII anticipates implementing the Compensation Plan in March 2016.

viii. the Compensation Plan provides, among other things:

A. that an amount of approximately $156.1 million which is equal to the full amount of the unrecorded Interest will be distributed to Affected Investors, without deduction of any management and administrative fees, in the respective proportions required to ensure that the Affected Investors are, to the extent reasonably possible, put back into the economic position they would have been in if the Interest had been properly recorded as an asset of the respective Forward Fund including, without limitation, any penalties or interest payable by the Affected Investors as a result of the late payment of tax in respect of the Interest earned by the Forward Funds;

B. to the extent that, as a result of the Forward Fund Control and Supervision Inadequacy, any Affected Investors received amounts in excess of what they were entitled to, CII will not seek reimbursement. Under the Compensation Plan, CII will increase the total amount of Interest payable to Affected Investors by the amount of any such excess payment;

C. that Affected Investors who have redeemed their units in an Affected Fund prior to February 29, 2016 will receive an amount in respect of the time value of money on the money that

they are receiving under the Compensation Plan calculated using a simple rate of interest of 3% per annum from the date of redemption to the payment date;

D. that there will be a $10.00 *de minimis* exception;

E. a detailed methodology to be used in determining how the Interest will be allocated to Affected Investors;

F. the approach to be taken to contacting and making payments to Affected Investors;

G. the approach to be taken if CII is not able to locate any Affected Investors;

H. the timing of implementation of the Compensation Plan; and

I. the resolution of Affected Investor inquiries through an escalation process.

ix. CII has advised Commission Staff that it is not aware of any other instance of a Forward Fund Control and Supervision Inadequacy other than the Forward Fund Control and Supervision Inadequacy described herein;

x. CII has taken corrective action to address the Forward Fund Control and Supervision Inadequacy. CII has developed and is implementing procedures and controls as well as supervisory and monitoring systems designed to enhance CII's control and supervision procedures (the "**Enhanced Control and Supervision Procedures**"). A copy of the Enhanced Control and Supervision Procedures has been provided to staff of the Compliance and Registration Branch. As part of this Settlement Agreement, CII is required to report to a manager or deputy director in the Compliance and Registrant Regulation Branch of the Commission (the "**OSC Manager**") on its ongoing progress in developing and/or implementing the Enhanced Control and Supervision Procedures;

xi. CII has agreed to make a voluntary payment of $8,000,000 to the Commission to advance the Commission's mandate of protecting investors and fostering fair and efficient capital markets. CII has also agreed to pay Commission Staff's costs of $50,000;

xii. the total agreed voluntary settlement amount of $8,050,000 will be paid by wire transfer upon completion of the hearing before the Commission to approve this Settlement Agreement, which payment is conditional upon approval of this Settlement Agreement by the Commission; and

xiii. the terms of this Settlement Agreement are reasonable and appropriate in all the circumstances, having regard to the mitigating factors described herein and the principles of general and specific deterrence. Commission Staff are of the view that, the distributions to be made to Affected Investors by CII of approximately $156.1 million, and other appropriate compensation, in addition to the voluntary payments referred to above, will emphasize to the marketplace that Commission Staff expect registrants to have a compliance system with appropriate controls and supervision in place which:

A. provides reasonable assurance that registrants, and each person acting on behalf of registrants, are (1) complying with securities legislation; (2) appropriately managing the risks associated with the development and monitoring of new products; (3) accurately calculating NAVs of the funds managed by them at all times; and (4) monitoring and supervising third-party service providers;

B. is reasonably effective in promptly identifying and correcting cases of non-compliance and internal control weaknesses.

10. CII neither admits nor denies the accuracy of the facts or conclusions of Commission Staff as set out in Part III of this Settlement Agreement (nor as set out in Part I and Part II of this Settlement Agreement, to the extent that they are also referenced in Part III).

11. CII agrees to this Settlement Agreement and to the making of an order in the form attached as Schedule "A".

PART III – COMMISSION STAFF'S STATEMENT OF FACTS AND CONCLUSIONS

A. Overview

12. In June 2015, CII self-reported to Commission Staff that the approximately $156.1 million of Interest that had been earned on money deposited by the Forward Funds as collateral for forward purchase agreements had not been properly recorded as an asset in the accounting records of the Forward Funds with the result that the NAVs of the Forward Funds and any funds that had invested in the Forward Funds had been understated for several years. The principal amount of the collateral has been properly recorded in the accounting records of the Forward Funds. As of May 29, 2015, the total NAV of the Forward Funds was approximately $9.8 billion.

13. The Interest is and has at all times remained in bank accounts as an asset of the Forward Funds and has never been comingled with the property of CII. As described in this Settlement Agreement, an amount equal to the full amount of the unrecorded Interest, and other appropriate compensation, will be distributed to Affected Investors, without deduction of any management or administrative fees.

14. Commission Staff have concluded that the failure to record the Interest in the accounting records of the Forward Funds was a result of the Forward Fund Control and Supervision Inadequacy.

15. As set out below, CII has taken remedial steps to correct the Forward Fund Control and Supervision Inadequacy, including the Enhanced Control and Supervision Procedures.

B. The Forward Fund Control and Supervision Inadequacy

16. From December 2009 to January 2012, CII launched the Forward Funds, which used cash collateral forward purchase agreements in order to gain exposure to investment opportunities on a tax efficient basis. A total of 23 CII mutual funds, as well as 69 segregated funds, invested, directly or indirectly, in the Forward Funds.

17. Pursuant to the forward purchase agreements, the Forward Funds were required to place cash on deposit with a bank as collateral for their obligations under the forward purchase agreements. The Forward Funds set up interest earning bank accounts with a Canadian chartered bank and deposited the collateral into these accounts as required from time to time. It was intended that the interest earned on the bank accounts would offset hedge fees charged by the counterparty to the forward purchase agreements.

18. The Interest was earned and paid into the bank accounts monthly and still remains in the bank accounts set up by the respective Forward Funds.

19. In March 2013, the federal government introduced provisions in the budget which would limit the tax-efficiency of the Forward Fund arrangements with the result that six of the Forward Funds were closed to investments in May 2013. The seventh Forward Fund remains open for investment because its objective was not solely tax efficient investing.

20. In April 2015, in connection with the termination of two of the forward purchase agreements, CII determined that the Interest had not been recorded in the accounting records of the Forward Funds and had not been included as an asset in the NAV calculation of the Forward Funds, causing the NAVs of all of the Affected Funds to be understated for several years and, accordingly, unitholders in the Affected Funds bought and redeemed units in the various funds at an understated value.

21. CII immediately commenced an investigation into this matter and retained Deloitte LLP ("**Deloitte**") to:

    a. conduct an independent investigation into the circumstances and possible consequences of the accrued and unrecorded Interest;

    b. consider and analyse possible remediating measures, including measures to be taken to distribute the Interest to the Affected Investors and the Enhanced Control and Supervision Procedures; and

    c. test the model which implements the Compensation Plan.

22. For several years, CII has outsourced certain administrative and custodial duties to a major financial institution that specializes in these types of services (the "**Third-party Service Provider**") which, in its capacity as fund administrator and as directed by CII, provides fund accounting services for CII's funds, including the Forward Funds, and calculates the NAVs of each Forward Fund and fund invested in the Forward Funds.

23. CII remains responsible and accountable for the accuracy of the accounting records and NAVs of the mutual funds it manages and it is required to establish a system of controls for monitoring outsourced service providers to ensure such service providers are complying with securities legislation and prudent business practices, including the Third-party Service Provider.

24. At the conclusion of the investigation undertaken by Deloitte, it was determined that there was a misunderstanding about the unique nature of these Forward Funds and in particular the Interest that was accruing in the cash collateral bank accounts.

25. Although CII believed that the Third-party Service Provider was receiving copies of the bank statements for the cash collateral accounts, CII did not take steps to ensure that it had provided access to bank statements, which prevented the Third-party Service Provider from performing proper reconciliations of the Interest. Nor did CII properly instruct the Third-party Service Provider regarding the unique nature of the cash collateral forward agreements.

26. Four separate occasions have been identified by Deloitte where CII might have realized earlier that it had not properly instructed the Third-party Service Provider and did not provide the Third-party Service Provider with sufficient information concerning the cash collateral accounts to properly record the Interest.

27. On one of these occasions, in December 2011, the Third-party Service Provider alerted CII to the fact that it had not been recording the Interest in one of the Forward Funds. However, CII did not take steps to ensure that the Interest was thereafter properly recorded in the accounts of the Forward Funds. Furthermore, on realizing that the Interest had not been recorded, CII did not treat this as a NAV error and follow its policies and procedures for such an event, but rather followed the protocol used to deal with the recording of unanticipated income by amortizing the accumulated Interest.

28. CII's internal policy, if followed, should have led to the early identification of the fact that the Interest was not being recorded in the accounting records of the Forward Funds. The failure to record the Interest should have been treated as an error in the NAV of the Forward Funds and this should have led CII to escalate this matter to its compliance department and ultimately to the Commission as a NAV adjustment at an early stage.

29. Commission Staff has determined that CII's monitoring and oversight of the Third-party Service Provider, and its system of internal controls and supervision, were not sufficient to ensure that CII properly instructed the Third-party Service Provider regarding the unique nature of the cash collateral forward purchase agreements and that Interest accruing on cash collateral bank accounts was being correctly recorded with the result that, rather than identify and deal with this matter on any of the four occasions identified (or otherwise), the problem continued until four months after certain of the forward purchase agreements were terminated.

30. Both before and after the identification of the Forward Fund Control and Supervision Inadequacy, CII implemented changes to its systems of internal controls and supervision to address such inadequacies, including the following Enhanced Control and Supervision Procedures:

    a. In 2012, CII created a new project review committee with responsibility to apply an appropriate project management framework for all strategic initiatives including new product launches with responsibility to ensure that all parties understand the products and that controls are in place to ensure correct accounting;

    b. In 2012, CII formalized a product review committee to review and approve all product initiatives. This committee is comprised of senior executives of CII;

    c. In 2014, CII started the build-out of a new portfolio management system feature to reconcile cash and collateral account balances between CII's portfolio management system and the fund administrator;

    d. In 2015, formalized checklists have been developed and enhanced, which include a process to ensure that there is adequate information regarding all products; and

    e. In 2015, a new policy was introduced to require that all fund bank accounts have the fund administrator as the responsible party for receipt of bank statements.

C. Compensation Plan

31. CII has designed the Compensation Plan and Deloitte is independently validating the compensation payments calculated by CII by programming a completely separate remediation model and verifying that the results generated from its model and the CII model are the same in all material respects.

32. In accordance with the Compensation Plan:

    a. Each Affected Investor will receive an amount calculated to ensure that the Affected Investor is, to the extent reasonably possible, put back into the economic position that they would have been in had the correct NAV been applied at the time the investment (or disposition) was made, and without deduction of any fees; including, without limitation, any penalties or interest payable by the Affected Investors as a result of the late payment of tax in respect of the Interest earned by the Forward Funds.

    b. To the extent that, as a result of the Forward Fund Control and Supervision Inadequacy, any Affected Investors received amounts in excess of what they were entitled to, CII will not seek reimbursement. Under the Compensation Plan, CII will increase the total amount of Interest payable to Affected Investors by the amount of any such excess payment.

    c. Each Affected Investor who redeemed units in an Affected Fund prior to February 29, 2016, will also receive payment of an amount representing the time value of money in respect of any adjusted redemption proceeds that should have been received calculated using a simple rate of interest of 3% per annum from the date of redemption to the payment date.

    d. There will be a $10.00 *de minimis* exception.

D. Breaches of Securities Law

33. With respect to the Forward Fund Control and Supervision Inadequacy, CII failed to establish, maintain and apply policies and procedures to establish a system of controls and supervision:

    a. sufficient to (1) provide reasonable assurance that CII, and the individuals acting on behalf of CII, were in compliance with securities legislation; (2) manage the risks associated with the development and monitoring of new products in accordance with prudent business practices; (3) accurately calculate NAVs of the Forward Funds at all times such that the NAV is not understated for unitholders; and (4) monitor and supervise its third-party service providers;

    b. that was reasonably likely to identify and correct the Forward Fund Control and Supervision Inadequacy in a timely manner.

34. As a result, CII breached section 11.1 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

E. Mitigating Factors

35. Commission Staff do not allege, and have found no evidence of dishonest or intentional misconduct by CII. CII discovered and self-reported the Forward Fund Control and Supervision Inadequacy to Commission Staff in a timely manner.

36. During the investigation of the Forward Fund Control and Supervision Inadequacy following the self-reporting by CII, CII provided prompt, detailed and candid cooperation to Commission Staff.

37. CII formulated a plan to distribute the entire amount of the Interest and to pay other appropriate compensation to Affected Investors, without deduction of $4,000,000 in management fees which it was contractually entitled to receive.

38. CII retained Deloitte to conduct an independent investigation of the Forward Fund Control and Supervision Inadequacy, consider and analyze possible remediating measures and to test the Compensation Plan.

39. The Compensation Plan developed by CII is designed to ensure that to the extent reasonably possible, Affected Investors are put back into the economic position they would have been in if the Interest had been properly recorded as an asset of the respective Forward Funds and Deloitte will independently validate the compensation payments calculated by CII pursuant to the Compensation Plan.

40. CII has advised Commission Staff that it is not aware of any other instance of a Forward Fund Control and Supervision Inadequacy other than the Forward Fund Control and Supervision Inadequacy described herein.

41. CII has, on its own initiative, taken other corrective measures with respect to the Forward Fund Control and Supervision Inadequacy. CII has developed and is implementing the Enhanced Control and Supervision Procedures.

As part of this Settlement Agreement, CII is required to report to the OSC Manager on its ongoing progress in developing and implementing the Enhanced Control and Supervision Procedures.

42. CII has co-operated with Commission Staff with a view to finalizing the Compensation Plan outlined in this Settlement Agreement.

43. As part of this Settlement Agreement, CII has agreed to pay Affected Investors, in accordance with the Compensation Plan and this Settlement Agreement which shall govern in the case of any conflict

44. CII has agreed to make a voluntary payment of $8,000,000 to the Commission to advance the Commission's mandate of protecting investors and fostering fair and efficient capital markets and to make a further voluntary payment of $50,000 to be allocated to costs.

45. The total agreed voluntary settlement amount of $8,050,000 will be paid by wire transfer upon completion of the hearing to approve this Settlement Agreement, which payment is conditional upon approval of this Settlement Agreement by the Commission.

46. The terms of settlement are appropriate in all the circumstances, including mitigating factors and the principles of general and specific deterrence. Commission Staff are of the view that the amounts to be paid as compensation to Affected Investors by CII of approximately $156.1 million, an amount equal to the unrecorded Interest, and other appropriate compensation, in accordance with this Settlement Agreement and the Compensation Plan, in addition to the voluntary payments referred to above, will emphasize to the marketplace that Commission Staff expect registrants to have appropriate controls and supervision in place which are reasonably likely to allow registrants to identify and correct matters of this kind in a timely manner.

PART IV – TERMS OF SETTLEMENT

CII Undertaking

47. By signing this Settlement Agreement, CII undertakes to:

    a. pay compensation to the Affected Clients in accordance with the Compensation Plan and to report to the OSC Manager in accordance with this Settlement Agreement and the Compensation Plan;

    b. make a voluntary payment of $50,000, to reimburse the Commission for costs incurred or to be incurred by it in accordance with subsection 3.4(2)(a) of the Act; and

    c. make a further voluntary payment of $8,000,000, to be designated for allocation to or for the benefit of third parties, or for use by the Commission for the purpose of educating investors or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets in accordance with subsections 3.4(2)(b)(i) or (ii) of the Act,

48. CII agrees to the terms of settlement listed below and consents to the Order attached hereto, pursuant to sections 127 and section 127.1 of the Act, that:

    a. the Settlement Agreement is approved;

    b. within 8 months of the approval of this Settlement Agreement, CII shall submit a letter (the "**Attestation Letter**"), signed by the Ultimate Designated Person and the Chief Compliance Officer of CII, to the OSC Manager, expressing their opinion that the Enhanced Control and Supervision Procedures were adequately followed, administered and enforced by CII for the six month period commencing from the date on which the Settlement Agreement is approved;

    c. the Attestation Letter shall be accompanied by a report which provides a description of the testing performed and/or other steps taken to support the conclusions contained in the Attestation Letter;

    d. CII shall submit such additional reports as may be requested by the OSC Manager for the purpose of satisfying the OSC Manager that the opinion expressed in the Attestation Letter described in subparagraph (b) above is valid; and

    e. CII or Commission Staff may apply to the Commission for directions in respect of any issues that may arise with regard to the implementation of subparagraphs (b) to (d) above.

49. CII agrees to make the payments described in subparagraphs 47 (b) and (c) above by wire transfer upon completion of the hearing before the Commission to approve this Settlement Agreement.

PART V – COMMISSION STAFF COMMTTMENT

50. If the Commission approves this Settlement Agreement, Commission Staff will not commence any proceeding under Ontario securities law in relation to Commission Staff's Statement of Facts and Conclusions set out in Part III or Commission Staff's allegations set out in Part II of this Settlement Agreement, subject to the provisions of paragraph 51 immediately below pertaining to the enforcement of this Settlement Agreement. However, nothing in this Settlement Agreement shall be interpreted as limiting Commission Staff's ability to commence proceedings against CII in relation to any control and supervision inadequacies other than the Forward Fund Control and Supervision Inadequacy described herein.

51. If the Commission approves this Settlement Agreement and CII fails to comply with any of the terms of this Settlement Agreement, Commission Staff may bring proceedings under Ontario securities law against CII. These proceedings may be based on, but are not limited to, Commission Staff's Statement of Facts and Conclusions set out in Part III of this Settlement Agreement as well the breach of this Settlement Agreement.

PART VI – PROCEDURE FOR APPROVAL OF SETTLEMENT

52. The parties will seek approval of this Settlement Agreement at a public hearing before the Commission scheduled for February 10, 2016, or on another date agreed to by Commission Staff and CII, according to the procedures set out in this Settlement Agreement and the Commission's *Rules of Procedure*.

53. Commission Staff and CII agree that this Settlement Agreement will form all of the evidence that will be submitted at the settlement hearing on CII's conduct, unless the parties agree that additional evidence should be submitted at the settlement hearing.

54. Subject to the Commission approving this Settlement Agreement, CII waives all rights to a full hearing, judicial review or appeal of this matter under the Act.

55. If the Commission approves this Settlement Agreement, CII will not make any public statement that is inconsistent with this Settlement Agreement or with any additional evidence submitted at the settlement hearing. In addition, CII will not make any public statement that there is no factual basis for this Settlement Agreement. However, nothing in this paragraph affects CII's testimonial obligations or its right to take legal or factual positions in other investigations or legal proceedings in which the Commission and/or Commission Staff is not a party or in which any provincial or territorial securities regulatory authority in Canada and/or its Commission staff is not a party ("**Other Proceedings**") or to make public statements in connection with Other Proceedings.

56. Whether or not the Commission approves this Settlement Agreement, CII will not use in any proceeding, this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement, as the basis for any attack on the Commission's jurisdiction, alleged bias, alleged unfairness, or any other remedies or challenges that may otherwise be available.

PART VII – DISCLOSURE OF SETTLEMENT AGREEMENT

57. If the Commission does not approve this Settlement Agreement or does not make the order attached as Schedule "A" to this Settlement Agreement:

    a. this Settlement Agreement and all discussions and negotiations between Commission Staff and CII before the settlement hearing takes place will be without prejudice to Commission Staff and CII; and

    b. Commission Staff and CII will each be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations contained in the Statement of Allegations of Commission Staff dated February 5, 2016. Any proceedings, remedies and challenges will not be affected by this Settlement Agreement, or by any discussions or negotiations relating to this Settlement Agreement.

58. The parties will keep the terms of this Settlement Agreement confidential until the commencement of the public hearing to obtain approval of this Settlement Agreement by the Commission. Any obligations of confidentiality shall terminate upon the commencement of the public settlement hearing. If for whatever reason, the Commission does not approve this Settlement Agreement, the terms of this Settlement Agreement remain confidential indefinitely, unless Commission Staff and CII otherwise agree or if required by law.

PART VIII – EXECUTION OF SETTLEMENT AGREEMENT

59. This Settlement Agreement may be signed in one or more counterparts which, together, constitute a binding agreement.

60. A facsimile copy or other electronic copy of any signature will be as effective as an original signature.

Dated at Toronto this 5th day of February, 2016.

CI INVESTMENTS INC.

"Sheila A. Murray"
SHEILA A. MURRAY
Executive Vice President

Witness

"Tom Atkinson"
TOM ATKINSON
Director, Enforcement Branch

SCHEDULE "A"

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

AND

IN THE MATTER OF
CI INVESTMENTS INC.

ORDER
(Subsections 127(1) and 127(2) and section 127.1)

WHEREAS:

1. On February 5, 2016, the Ontario Securities Commission (the "**Commission**") issued a Notice of Hearing in relation to the Statement of Allegations filed by Staff of the Commission ("**Commission Staff**") on February 5, 2016 with respect to CI Investments Inc. ("**CII**");

2. The Notice of Hearing gave notice that on February 10, 2016, the Commission would hold a hearing to consider whether it is in the public interest to approve a settlement agreement between Commission Staff and CII dated February 5, 2016 (the "**Settlement Agreement**");

3. Commission Staff has alleged that between December 2009 and June 2015, a total of approximately $156.1 million in interest (the "**Interest**") had accumulated in bank accounts set up by seven of CII's mutual funds (the "**Forward Funds**"). The Interest was earned on money deposited by the Forward Funds as collateral for forward purchase agreements that were unique to these Forward Funds. The Interest, however, was not recorded as an asset in the accounts of the respective Forward Funds and not included in the net asset value ("**NAV**") calculation of the Forward Funds. As a result, the NAV of each Forward Fund, and any fund that invested in the Forward Funds (collectively, the "**Affected Funds**"), was understated for several years and unitholders bought and redeemed units at an understated value;

4. Commission Staff has further alleged that CII did not have an adequate system of controls and supervision to sufficiently address the unique cash collateral feature of the Forward Funds and to ensure that the Interest earned in the cash collateral accounts was recorded and included in the NAV calculation of the Forward Funds such that the unitholders' NAV was understated (the "**Forward Fund Control and Supervision Inadequacy**");

5. Commission Staff are satisfied that CII discovered and self-reported the Forward Fund Control and Supervision Inadequacy to Commission Staff;

6. Commission Staff are satisfied that during the investigation of Forward Fund Control and Supervision Inadequacy by Commission Staff, CII provided prompt, detailed and candid cooperation to Commission Staff;

7. Commission Staff are satisfied that CII had formulated an intention to pay appropriate compensation to current and former investors in connection with its report of Forward Fund Control and Supervision Inadequacy to Commission Staff;

8. As part of the Settlement Agreement, CII undertakes to:

    a. Pay appropriate compensation to former and current investors that were affected by the Forward Fund Control and Supervision Inadequacy (the "**Affected Investors**") in accordance with a plan submitted by CII to Commission Staff (the "**Compensation Plan**") and to report to a manager or deputy director in the Compliance and Registrant Regulation Branch of the Commission (the "**OSC Manager**") in accordance with the Settlement Agreement and the Compensation Plan;

    b. Make a voluntary payment of $50,000 to reimburse the Commission for costs incurred or to be incurred by it in accordance with subsection 3.4(2)(a) of the Act; and

    c. Make a further voluntary payment of $8,000,000 to be designated for allocation to or for the benefit of third parties, or for use by the Commission for the purpose of educating investors or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets in accordance with subsections 3.4(2)(b)(i) or (ii) of the Act,

    (the "**Undertaking**");

9. The Commission will receive the voluntary payments totalling $8,050,000 upon completion of the hearing to approve the Settlement Agreement, which payments are conditional upon approval of the Settlement Agreement by the Commission;

10. The Commission reviewed the Settlement Agreement, the Compensation Plan, the Notice of Hearing and the Statement of Allegations of Commission Staff and heard submissions of counsel for CII and from Commission Staff; and

11. The Commission is of the opinion that it is in the public interest to make this order;

IT IS ORDERED THAT:

a. The Settlement Agreement is approved;

b. Within eight months of the approval of the Settlement Agreement, CII shall submit a letter (the "**Attestation Letter**"), signed by the Ultimate Designated Person and the Chief Compliance Officer of CII, to the OSC Manager, expressing their opinion that the Enhanced Control and Supervision Procedures were adequately followed, administered and enforced by CII for the six month period commencing from the date on which the Settlement Agreement is approved;

c. The Attestation Letter shall be accompanied by a report which provides a description of the testing performed and/or other steps taken to support the conclusions contained in the Attestation Letter;

d. CII shall submit such additional reports as may be requested by the OSC Manager for the purpose of satisfying the OSC Manager that the opinion expressed in the Attestation Letter described in subparagraph (b) above is valid; and

e. CII or Commission Staff may apply to the Commission for directions in respect of any issues that may arise with regard to the implementation of subparagraphs (b) to (d) above.

f. CII shall comply with the Undertaking to:

i. pay compensation to the Affected Investors in accordance with the Compensation Plan and to report to the OSC Manager in accordance with the Settlement Agreement and the Compensation Plan;

ii. make a voluntary payment of $50,000 to reimburse the Commission for costs incurred or to be incurred by it in accordance with subsection 3.4(2)(a) of the Act; and

iii. make a further voluntary payment of $8,000,000, which is designated for allocation to or for the benefit of third parties, or for use by the Commission for the purpose of educating investors or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets in accordance with subsections 3.4(2)(b)(i) or (ii) of the Act.

DATED at Toronto, Ontario this ____ day of February, 2016.

2.3.2 Welcome Place Inc. et al. – ss. 127(1), 127(2), 127.1

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

AND

IN THE MATTER OF
WELCOME PLACE INC.,
DANIEL MAXSOOD also known as MUHAMMAD M. KHAN,
TAO ZHANG, and TALAT ASHRAF

AND

IN THE MATTER OF
A SETTLEMENT AGREEMENT BETWEEN
STAFF OF THE ONTARIO SECURITIES COMMISSION AND
WELCOME PLACE INC.,
DANIEL MAXSOOD also known as MUHAMMAD M. KHAN,
TAO ZHANG, and TALAT ASHRAF

ORDER
(Subsections 127(1) and 127(2) and Section 127.1)

WHEREAS

1. the Ontario Securities Commission (the "Commission") issued a Notice of Hearing (the "Notice of Hearing") pursuant to subsection 127(1) and section 127.1 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") to consider whether it is in the public interest to make orders, as specified therein, against and in respect of Daniel Maxsood, also known as Muhammad M. Khan ("Maxsood"), Welcome Place Inc. ("Welcome Place"), Tao Zhang ("Zhang") and Talat Ashraf ("Ashraf") (the "Respondents"). The Notice of Hearing was issued in connection with the allegations as set out in the Statement of Allegations of Staff of the Commission ("Staff") issued on December 18, 2014 (the "Statement of Allegations");

2. the Respondents entered into a settlement agreement with Staff (the "Settlement Agreement") in which the Respondents agreed to a proposed settlement of the proceeding commenced by the Notice of Hearing, subject to the approval of the Commission;

3. on February 10, 2016, the Commission issued a Notice of Hearing pursuant to section 127 of the Act to announce that it proposed to hold a hearing to consider whether it is in the public interest to approve a settlement agreement entered into between Staff and the Respondents;

4. the Respondents acknowledge that failure to pay in full any monetary sanctions and/or costs ordered will result in the Respondents' names being added to the list of "Respondents Delinquent in Payment of Commission Orders" published on the OSC website;

5. the Commission has reviewed the Settlement Agreement, the Notices of Hearing and the Statement of Allegations of Staff, and heard submissions from counsel for the Respondents and Staff;

6. the Commission is of the opinion that it is in the public interest to make this order;

IT IS ORDERED THAT:

1. the Settlement Agreement is approved;

2. Maxsood, Ashraf and Welcome Place are reprimanded, pursuant to paragraph 6 of subsection 127(1) of the Act;

3. any trading in securities of Welcome Place shall cease permanently, pursuant to paragraph 2 of subsection 127(1) of the Act;

4. any trading in any securities or derivatives by each of Welcome Place and Maxsood shall cease for a period of 10 years, pursuant to paragraph 2 of subsection 127(1) of the Act;

5. any trading in any securities or derivatives by Ashraf shall cease for a period of 5 years, pursuant to paragraph 2 of subsection 127(1) of the Act;

6. the acquisition of any securities by each of Welcome Place and Maxsood is prohibited for a period of 10 years, pursuant to paragraph 2.1 of subsection 127(1) of the Act;

7. the acquisition of any securities by Ashraf is prohibited for a period of 5 years, pursuant to paragraph 2.1 of subsection 127(1) of the Act;

8. any exemptions contained in Ontario securities law do not apply to each of Welcome Place and Maxsood for a period of 10 years, pursuant to paragraph 3 of subsection 127(1) of the Act;

9. any exemptions contained in Ontario securities law do not apply to Ashraf for a period of 5 years, pursuant to paragraph 3 of subsection 127(1) of the Act;

10. each of Maxsood and Ashraf shall resign any positions that he holds as a director or officer of an issuer, pursuant to paragraph 7 of section 127(1);

11. Maxsood is prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager for a period of 10 years, pursuant to paragraphs 8, 8.2 and 8.4 of section 127(1) of the Act;

12. Ashraf is prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager for a period of 5 years, pursuant to paragraphs 8, 8.2 and 8.4 of section 127(1) of the Act;

13. Maxsood shall pay an administrative penalty of $110,000, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act, pursuant to paragraph 9 of section 127(1) of the Act;

14. Ashraf shall pay an administrative penalty of $10,000, on a joint and several basis with Maxsood, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act, pursuant to paragraph 9 of section 127(1) of the Act;

15. Maxsood and Welcome Place shall disgorge $2,967,901.52 to the Commission, on a joint and several basis , which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act, pursuant to paragraph 10 of section 127(1) of the Act;

16. Ashraf shall disgorge $262,186.00, on a joint and several basis with Maxsood, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act, pursuant to paragraph 10 of section 127(1) of the Act;

17. Maxsood and Zhang shall have provided written consent to an order of the Ontario Superior Court on or before February 10, 2016 that funds in the total amount of $662,829.00 held pursuant to the Freeze Directions that were issued on July 2 and 9, 2013 by the Commission and continued by the Ontario Superior Court of Justice on October 16, 2013 be paid to the Commission in partial satisfaction of the disgorgement amounts owing by Maxsood and Welcome Place pursuant to this Order, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act, pursuant to subsection 127(2) of the Act;

18. with respect to the Certificate of Direction on the Property, Maxsood shall have made payment of $382,000 by way of certified cheque to the Commission on or before February 10, 2016 in partial satisfaction of the disgorgement amounts owing by Maxsood and Welcome Place pursuant to this Order, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act, pursuant to subsection 127(2) of the Act. Once the amount of $382,000 has been paid in full, the Commission will consent to an order of the Ontario Superior Court removing the Certificate of Direction from the Property;

19. Maxsood and Welcome Place shall pay $120,000, on a joint and several basis, in respect of costs of the investigation, pursuant to section 127.1 of the Act;

20. Until the entire amount of the payments required by paragraphs 13, 14, 15, 17, 18 and 19 is paid in full, the provisions of paragraphs 4, 6, 8 and 11 shall continue in force without any limitation as to time period; and

21. Until the entire amount of the payments required by paragraphs 14 and 16 is paid in full, the provisions of paragraphs 5, 7, 9 and 12 shall continue in force without any limitation as to time period.

DATED AT TORONTO this 11th day of February, 2016.

"Edward P. Kerwin"

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

AND

IN THE MATTER OF
WELCOME PLACE INC.,
DANIEL MAXSOOD also known as MUHAMMAD M. KHAN,
TAO ZHANG, and TALAT ASHRAF

SETTLEMENT AGREEMENT

PART I – INTRODUCTION

1. The Ontario Securities Commission (the "Commission") will issue a Notice of Hearing to announce that it will hold a hearing to consider whether, pursuant to sections 127, 127.1 and 127(2) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act"), it is in the public interest for the Commission to approve this settlement agreement between Staff of the Commission ("Staff") and Welcome Place Inc. ("Welcome Place"), Daniel Maxsood also known as Muhammad M. Khan ("Maxsood"), Tao Zhang ("Zhang"), and Talat Ashraf ("Ashraf") (collectively, the "Respondents"), and to make certain orders in respect of the Respondents.

PART II – JOINT SETTLEMENT RECOMMENDATION

2. Staff agree to recommend settlement of the proceeding commenced against the Respondents by Notice of Hearing dated December 18, 2014 (the "Proceeding") according to the terms and conditions set out below. The Respondents consent to the making of an order in the form attached as Schedule "A" to this Settlement Agreement, based on the facts set out below.

PART III – AGREED FACTS

3. For the purposes of the Proceeding, and any other regulatory proceeding commenced by a securities regulatory authority, the Respondents agree with the facts as set out in Part III and the conclusion in Part IV of this Settlement Agreement.

A. OVERVIEW

4. Between March 1, 2008 and May 15, 2013 (the "Material Time"), each of the Respondents engaged in unregistered trading and illegal distribution of securities, contrary to sections 25 and 53 of the Act. Approximately $5,250,000 was raised from approximately 90 investors, who were solicited to participate in an investment scheme carried out by the Respondents. Maxsood was the directing mind of the investment scheme. Ashraf was the marketing manager of Welcome Place who solicited investors and received investor funds. Zhang was the spouse of Maxsood who received investor funds in her bank accounts as part of the investment scheme.

5. Maxsood and Welcome Place also engaged in and participated in a course of conduct that they knew or ought reasonably to know perpetrated a fraud on investors in Welcome Place, contrary to section 126.1(b) of the Act. Maxsood and Welcome Place engaged in fraudulent conduct by: (i) misleading investors as to the use of investor funds; (ii) using investor funds to repay other investors; and (iii) using investor funds for personal expenditures. Investors are still owed a total of $3,230,087.52 on their investments.

6. In addition, Maxsood and Welcome Place made statements about matters that a reasonable investor would consider relevant in deciding whether to enter into or maintain a trading relationship with Maxsood and Welcome Place and the statements were untrue or omitted information necessary to prevent the statements from being false or misleading in the circumstances in which they were made, contrary to subsection 44(2) of the Act.

7. As the directing mind of Welcome Place, Maxsood authorized, permitted or acquiesced in Welcome Place's non-compliance with Ontario securities law and accordingly failed to comply with Ontario securities law, contrary to section 129.2 of the Act.

8. The Respondents acted in a manner contrary to Ontario securities law and contrary to the public interest.

B. THE RESPONDENTS

9. During the Material Time, Welcome Place was a federal company, incorporated on March 3, 2008, with its registered office address in Mississauga, Ontario. Welcome Place has never been registered with the Commission in any capacity.

Welcome Place is not a reporting issuer in Ontario. Welcome Place has never filed a prospectus or preliminary prospectus with the Commission.

10. Maxsood is a resident of Oakville, Ontario. Maxsood legally changed his name from Muhammad M. Khan in 2010. He is the founding director of Welcome Place, and its directing mind. Maxsood has never been registered with the Commission in any capacity.

11. Zhang is a resident of Oakville, Ontario, and is the spouse of Maxsood. Zhang has never been registered with the Commission in any capacity.

12. Ashraf is a resident of Mississauga, Ontario who worked for Welcome Place since 2011, as its marketing manager. He has never been registered with the Commission in any capacity.

C. THE RESPONDENTS' MISCONDUCT

(i) The Solicitation of Investors through the Trading School

13. During the Material Time, Welcome Place operated a trading school located in Mississauga, Ontario. Through radio and newspaper advertisements, as well as through the Welcome Place website, Maxsood and Welcome Place offered to teach the public how to trade commodity futures contracts including foreign exchange and indices. In its advertisements, Welcome Place guaranteed a daily return of $200 to $300 if students followed the day trading methods taught by Welcome Place and used its trading software. Similarly, Welcome Place's website represented that investors could "make 24% to 36% Guaranteed".

14. Students were first invited to attend a free seminar presented by Maxsood, who purported to provide information and advice regarding day trading strategies. Thereafter, seminar attendees were solicited by Maxsood and Ashraf to sign up for trading workshops, for which they were generally charged tuition of approximately $5,000. During the Material Time, approximately 230 students paid approximately $730,000 in tuition fees.

15. At these seminars and trading workshops, Maxsood held out Welcome Place's "systematic approach" as providing all the tools necessary to become a successful trader. Maxsood instructed and invited students to follow and copy his trading methodology. Maxsood and Welcome Place purported "to show how the theory can be profitably executed from our personal trading experience".

16. As set out in greater detail below, Maxsood and Ashraf then used these seminars and trading workshops to promote an investment in an import/export business run by Maxsood. More specifically, during and after the seminars and trading workshops, certain students were solicited by Maxsood and/or Ashraf to invest money with Maxsood and/or Welcome Place for Maxsood's import/export business, with the promise that they would receive a share of the profits of the import/export business. These activities were acts in furtherance of trading, and as particularized below, were part of a fraudulent course of conduct and conduct contrary to the public interest.

(ii) Unregistered Trading Contrary to Section 25 of the Act

17. During the Material Time, Maxsood and Ashraf solicited investors, by among other things, meeting with potential investors in person and on the telephone, discussing the nature of the investment, and making representations regarding guarantees and the purported profits to be earned by entering into the investment.

18. Most of the investors were initially students at Welcome Place. In some instances, however, seminar attendees simply proceeded to make an investment with Maxsood and Welcome Place and did not register for the trading workshop course.

The Investment Opportunity

19. Maxsood was a director and shareholder of a company called Oseka Co. Ltd. ("Oseka"), which was incorporated in August 2012 in Bangkok, Thailand. Oseka appeared to be an import/export business.

20. Most investors were told by Maxsood and Ashraf that Maxsood was establishing, and then later, operating an import/export business. Maxsood and Ashraf solicited investors to invest in Maxsood's import/export business.

21. Maxsood, Ashraf and Welcome Place represented to investors that after investing, they would receive monthly payments of 2% to 3% of their investment, and after being repaid the amount that was initially invested, investors would be entitled to share in the profits of Maxsood's import/export business in perpetuity.

22. During the Material Time, investors invested $5.25 million with Maxsood and/or Welcome Place. Investor funds were received by both Maxsood and Ashraf. After making their investment, in many instances, investors received promissory notes

which were prepared by Maxsood and issued by Welcome Place. Each promissory note was accepted by and executed by Maxsood. During the Material Time, at least 34 promissory notes were issued to at least 31 investors totalling approximately $1,755,000 (the "Promissory Notes"). Each Promissory Note evidenced indebtedness and/or was an "investment contract" and therefore a "security" as defined in subsection 1(1) of the Act.

23. In other instances, formal promissory notes were not executed, but instead investors provided funds to Maxsood and Ashraf on the understanding that the monies were payable for an investment, sometimes including such a notation directly on cheques. The investments being offered by Maxsood, Ashraf and/or Welcome Place were "investment contracts" and, therefore, a "security" as defined in subsection 1(1) of the Act.

24. Maxsood deposited investor funds into several bank accounts in his name and in the name of Welcome Place. Maxsood controlled and was a signatory on the Welcome Place bank account. In addition to the monies received for which Promissory Notes were issued, accounts in Maxsood's name and in the name of Welcome Place received at least an additional $3,885,000 from approximately 64 other investors as investment funds. In total, approximately $5,250,000 was received from approximately 90 investors.

Acts in Furtherance Of Unregistered Trading By Zhang

25. Maxsood also directed investor funds to be paid or transferred to the Canadian bank accounts of his spouse. Zhang consequently received a significant amount of funds both from investors directly and from the accounts of Welcome Place and Maxsood as follows:

(a) $21,000 directly from investors;

(b) $19,589 transferred from Welcome Place; and

(c) $984,006.43 transferred from Maxsood's accounts, consisting mainly of funds deposited to Maxsood's accounts as investments from investors and fees for trading workshops.

The receipt of funds by Zhang constituted acts in furtherance of unregistered trading, contrary to section 25 of the Act.

Unregistered Trading Conducted By Ashraf

26. In addition to making representations about and soliciting investors to make an investment in Maxsood's import/export business, Ashraf received funds totalling approximately $262,000 from various accounts controlled by Maxsood as commission for the solicitation of investors and interest free loans. Further, as compensation for the solicitation of investors, Ashraf became entitled to share in the profits of, and receive other benefits from, Maxsood's import/export business.

Conclusion Regarding Unregistered Trading

27. By engaging in the conduct described above, the Respondents traded and engaged in, or held themselves out as engaging in, the business of trading in securities, namely investment contracts, without being registered with the Commission to trade in such securities during the Material Time. The Respondents participated in acts, advertisements, solicitations, conduct, or negotiations directly or indirectly in furtherance of the sale or disposition of securities for valuable consideration, in circumstances where there were no exemptions available to them under the Act, contrary to section 25 of the Act.

(iii) Illegal Distribution Contrary To Section 53 of the Act

28. The dealing in Promissory Notes and investment contracts were trades in securities not previously issued and were, therefore, distributions. Maxsood, Ashraf and Welcome Place have never filed a preliminary prospectus or a prospectus with the Commission, and no prospectus receipt has ever been issued to qualify the sale of the Promissory Notes or other investment contracts, contrary to section 53 of the Act.

29. Many of the investors did not qualify as accredited investors or meet applicable exemptions from registration and prospectus requirements, nor were inquiries generally made by Maxsood and/or Ashraf about investors' financial situation. In some instances, the investors borrowed funds to make the investments, including mortgaging their homes.

(iv) Fraudulent Conduct By Maxsood and Welcome Place

30. During the Material Time, Maxsood and Welcome Place breached section 126.1(b) of the Act by directly or indirectly engaging in or participating in an act, practice or course of conduct related to securities, commencing with the solicitation of investors through the trading school, which they knew, or ought to have reasonably known, perpetrated a fraud on investors.

Maxsood and Welcome Place engaged in a number of fraudulent acts, practices or courses of conduct which are set out in more detail below.

(a) Misleading Investors As To The Use of Investor Funds

31. Maxsood and Ashraf told some investors that their investor funds would be used in Maxsood's import/export business. Contrary to these representations, only approximately $1.1 million of the $5.25 million raised from investors was transferred to a company called Oseka Co. In addition, approximately $21,000 was sent to another director of Oseka. Instead, as set out below, most of the investor funds were used to either repay other investors or for personal expenditures of Maxsood and his family.

(b) Using Investor Funds To Repay Other Investors

32. Maxsood and Ashraf told investors they would receive monthly repayment of their initial investment in the range of 2-3% per month. They were further told by Maxsood and Ashraf that the source of the repayments would be from Maxsood's import/export business. Contrary to this representation, Maxsood and Welcome Place had no source of funds other than what was obtained through investors and tuition for the trading workshops. Oseka did not make any payments to either Maxsood or Welcome Place. As tuition fees and revenues from Welcome Place were insufficient, Maxsood and Welcome Place had no other way of repaying the Promissory Note holders and other investors without soliciting other investors.

33. Maxsood directed at least $1,880,000, of the funds received from investors to be used to make monthly repayments to other investors. To date, $3,230,087.52 remains due and owing to investors.

(c) Using Investor Funds For Personal Expenditures

34. Further, Maxsood misappropriated and directed investor funds to be used for the personal benefit of himself and his family members as follows:

(a) in addition to the approximately $1,000,000 transferred to Zhang's Canadian bank accounts as described in paragraph 25 above, a further $44,000 was transferred to a bank account held by Zhang in China;

(b) approximately $573,000 was transferred offshore to Thailand and China and paid to family members and/or related parties of Maxsood and/or Zhang;

(c) approximately $382,000 was used to make payments to mortgages on properties owned by Maxsood and/or Zhang located in Ontario; and

(d) approximately $271,000 was used to pay credit card bills in the names of Maxsood, Zhang and Welcome Place.

35. Investors were never told that their investment funds would be used for the personal expenditures of Maxsood and his family.

(v) Breach of Section 44(2)of the Act

36. Further, in making representations to investors that their funds would be used for an import/export business and omitting to tell investors that their funds would be used to pay other investors and/or for the personal expenditures of Maxsood and his family, Maxsood and Welcome Place made statements about matters that a reasonable investor would consider relevant in deciding whether to enter into or maintain a trading relationship with Maxsood and Welcome Place and the statements were untrue or omitted information necessary to prevent the statements from being false or misleading in the circumstances in which they were made, contrary to subsection 44(2) of the Act.

D. BREACHES OF THE SECURITIES ACT AND CONDUCT CONTRARY TO THE PUBLIC INTEREST

37. The Respondents admit to the following breaches:

(a) During the Material Time, Maxsood, Welcome Place, and Ashraf traded and engaged in, or held themselves out as engaging in, the business of trading in securities without being registered to do so in circumstances in which no exemption was available, contrary to paragraph 25(1)(a) of the Act as that section existed at the time the conduct commenced in 2008, and after September 28, 2009, contrary to subsection 25(1) of the Act;

(b) During the Material Time, Maxsood, Welcome Place and Ashraf distributed securities when a preliminary prospectus and a prospectus had not been filed and receipts had not been issued for them by the Director, contrary to subsection 53(1) of the Act;

(c) During the Material Time, Maxsood and Welcome Place engaged or participated in acts, practices, or courses of conduct relating to securities that they knew perpetrated a fraud on persons or companies contrary to paragraph 126.1(b) of the Act;

(d) During the Material Time, Maxsood and Welcome Place made statements about matters that a reasonable investor would consider relevant in deciding whether to enter into or maintain a trading relationship with Maxsood and Welcome Place and the statements were untrue or omitted information necessary to prevent the statements from being false or misleading in the circumstances in which they were made, contrary to subsection 44(2) of the Act;

(e) During the Material Time, Maxsood, being an officer and director of Welcome Place, authorized, permitted or acquiesced in Welcome Place's non-compliance with Ontario securities law and accordingly failed to comply with Ontario securities law, contrary to section 129.2 of the Act; and

(f) Maxsood, Welcome Place and Ashraf's conduct was contrary to the public interest and harmful to the integrity of the capital markets in Ontario.

E. CEASE TRADE ORDER AND FREEZE DIRECTIONS

38. On July 2, 2013, the Commission issued a temporary order pursuant to subsections 127(1) and (5) of the Act, ordering that:

(a) All trading in securities by Welcome Place, Maxsood, Zhang and Ashraf shall cease; and

(b) The exemptions in Ontario securities law do not apply to any of Welcome Place, Maxsood, Zhang and Ashraf. (the "Cease Trade Order")

39. On July 12, 2013, the Commission extended the Cease Trade Order to January 31, 2014, pursuant to sections 127(7) and (8) of the Act. On January 27, 2014, the Commission further extended the Cease Trade Order until the final disposition of the proceeding in this matter, pursuant to sections 127(7) and (8) of the Act.

40. On July 2, 2013 the Commission also issued 6 Freeze Directions pursuant to subsection 126(1) of the Act with respect to bank accounts in the name of Welcome Place, Maxsood and Zhang to the Royal Bank of Canada, the Toronto Dominion Bank and the Canadian Imperial Bank of Commerce. On July 9, 2013, the Commission issued a further Freeze Direction pursuant to subsection 126(1) of the Act with respect to a bank account in the name of Zhang to the National Bank of Canada. All of the Freeze Directions were continued by the Ontario Superior Court of Justice on October 16, 2013 pursuant to subsection 126(5) of the Act until further order of the Court or until the Commission revokes the Freeze Directions or consents to the release of the property.

41. On July 9, 2013, the Commission issued a Certificate of Direction to the Land Registrar of Halton pursuant to subsections 126(1) and (4) of the Act, with respect to property located at 3322 Raspberry Bush Trail, Oakville, Ontario (the "Property") on the basis that the evidence established that $382,000 of investor funds had been used to pay the mortgage on the Property. On October 16, 2013, the Ontario Superior Court of Justice continued the Certificate of Direction until further order of the Court or until the Commission revokes the Freeze Directions or consents to the release of the Property.

PART IV – THE POSITION OF THE RESPONDENTS

42. The Respondents request that the settlement hearing panel consider the following mitigating circumstances:

(a) The Respondents understood the monies involved to be loans. The majority of the individuals who provided monies to Maxsood and Welcome Place were provided promissory notes. The Respondents agreed that the principal amount would be paid back and that the interest portion was to be 2 - 3% depending on how Oseka performed;

(b) $1,880,391.00 was repaid prior to Staff obtaining the Freeze Directions. Repayment ceased because of the Freeze Directions. Since the Freeze Directions have been issued by the Commission and continued by the Ontario Superior Court of Justice, the Respondents have continued to pay money back. The Respondents state that to date, they have paid back $500,000 (of which, only $186,985.00 has been confirmed by Staff to have been repaid based on the records provided by the Respondents) without Staff requesting same. The Respondents have also agreed as part of this Settlement Agreement to having the monies held pursuant to the Freeze Directions being paid to the Commission as partial satisfaction of the disgorgement order and to the monies being distributed to investors;

(c) The Respondents used the monies as their own as they understood these to be loans;

(d) The Respondents were not aware that their activities were regulated by the Commission;

(e) The Respondents have cooperated with the Staff's investigation and sought settlement with Staff, thereby avoiding the need for a protracted hearing, and the associated time and expense. The Respondents consented to the continuation of the Freeze Directions and the Certificate of Direction by the Ontario Superior Court of Justice;

(f) The Respondents advise that there are no civil claims against them. The Respondents have maintained a positive relationship with all of the people that provided funds to Maxsood and Welcome Place; and

(g) Zhang did not meet with or deal with any of the people providing monies to Maxsood or Welcome Place. There were four cheques made payable directly to Zhang which were deposited into her bank accounts. There was also a cheque made payable to Maxsood which was deposited directly into her bank accounts. She also received funds as set out above in Part III which were transferred from Maxsood's and Welcome Place's bank accounts.

PART V – TERMS OF SETTLEMENT

43. The Respondents agree to the terms of settlement listed below.

44. The Commission will make an order, pursuant to subsection 127(1) and section 127.1 of the Act that:

(a) the Settlement Agreement is approved;

(b) Maxsood, Ashraf and Welcome Place are reprimanded;

(c) pursuant to paragraph 2 of subsection 127(1), any trading in any securities of Welcome Place shall cease permanently;

(d) pursuant to paragraph 2 of subsection 127(1) of the Act, trading in any securities or derivatives by each of Welcome Place and Maxsood shall cease for a period of 10 years;

(e) pursuant to paragraph 2 of subsection 127(1) of the Act, trading in any securities or derivatives by Ashraf shall cease for a period of 5 years;

(f) pursuant to paragraph 2.1 of subsection 127(1) of the Act, the acquisition of any securities by each of Welcome Place and Maxsood is prohibited for a period of 10 years;

(g) pursuant to paragraph 2.1 of subsection 127(1) of the Act, the acquisition of any securities by Ashraf is prohibited for a period of 5 years;

(h) pursuant to paragraph 3 of subsection 127(1) of the Act, any exemptions contained in Ontario securities law do not apply to each of Welcome Place and Maxsood for a period of 10 years;

(i) pursuant to paragraph 3 of subsection 127(1) of the Act, any exemptions contained in Ontario securities law do not apply to Ashraf for a period of 5 years;

(j) pursuant to paragraph 7 of section 127(1), each of Maxsood and Ashraf shall resign any positions that he holds as a director or officer of an issuer;

(k) pursuant to paragraphs 8, 8.2 and 8.4 of section 127(1) of the Act, Maxsood is prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager for a period of 10 years;

(l) pursuant to paragraphs 8, 8.2 and 8.4 of section 127(1) of the Act, Ashraf is prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager for a period of 5 years;

(m) pursuant to paragraph 9 of section 127(1) of the Act, Maxsood shall pay an administrative penalty of $110,000, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act;

(n) pursuant to paragraph 9 of section 127(1) of the Act, Ashraf shall pay an administrative penalty of $10,000, on a joint and several basis with Maxsood, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act;

(o) pursuant to paragraph 10 of section 127(1) of the Act, Maxsood and Welcome Place shall disgorge $2,967,901.52 to the Commission, on a joint and several basis , which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act;

(p) pursuant to paragraph 10 of section 127(1) of the Act, Ashraf shall disgorge $262,186.00, on a joint and several basis with Maxsood, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act;

(q) pursuant to subsection 127(2) of the Act, Maxsood and Zhang shall have provided a written consent to an order of the Superior Court on or before February 10, 2016 that funds in the total amount of $662,829.00 held pursuant to Freeze Directions issued on July 2 and 9, 2013 by the Commission and continued by the Ontario Superior Court of Justice on October 16, 2013 be paid to the Commission in partial satisfaction of the disgorgement amounts owing by Maxsood and Welcome Place pursuant to this Settlement Agreement and that such funds are designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act;

(r) pursuant to subsection 127(2) of the Act, with respect to the Certificate of Direction that was issued with respect to the Property by the Commission on July 9, 2013 and continued by the Ontario Superior Court of Justice on October 16, 2013, Maxsood shall have made payment of $382,000 by way of certified cheque to the Commission on or before February 10, 2016 in partial satisfaction of the disgorgement amounts owing by Maxsood and Welcome Place pursuant to this Settlement Agreement, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act. Once the amount of $382,000 has been paid in full, the Commission will consent to an order of the Ontario Superior Court removing the Certificate of Direction from the Property;

(s) pursuant to section 127.1 of the Act, Maxsood and Welcome Place shall pay the costs of Commission's investigation in the amount of $120,000 on a joint and several basis;

(t) until the entire amount of the payments set out in paragraphs 44(m), (n), (o), (p), (q), (r) and (s) is paid in full, the provisions of paragraphs 44(d), (f), (h) and (k) shall continue in force without any limitation as to time period; and

(u) until the entire amount of the payments set out in paragraphs 44(n) and (p) is paid in full, the provisions of paragraphs 44(e), (g), (i) and (l) shall continue in force without any limitation as to time period.

45. The Respondents acknowledge that failure to pay in full any monetary sanctions and/or costs ordered will result in their name being added to the list of "Respondents Delinquent in Payment of Commission Orders" published on the OSC website.

46. The Respondents acknowledge that this Settlement Agreement and proposed Order may form the basis for parallel orders in other jurisdictions in Canada. The securities laws of some other Canadian jurisdictions may allow orders made in this matter to take effect in those other jurisdictions automatically, without further notice to the Settling Respondents. The Respondents should contact the securities regulator of any other jurisdiction in which he or she may intend to engage in any securities related activities, prior to undertaking such activities.

PART VI – STAFF COMMITMENT

47. If the Settlement Agreement is approved by the Commission, Staff will not initiate any other proceeding under the Act against the Respondents in relation to the facts set out in Part III herein.

48. If the Commission approves this Settlement Agreement and the Respondents fail to comply with any of the terms of the Settlement Agreement, Staff reserve the right to bring proceedings under Ontario securities law against any of the Respondents. These proceedings may be based on, but are not limited to, the facts set out in Part III of this Settlement Agreement as well as the breach of the Settlement Agreement. In addition, if this Settlement Agreement is approved by the Commission, and any of the Settling Respondents fail to comply with the terms of the Settlement Agreement, the Commission is entitled to bring any proceedings necessary to recover the amounts set out in paragraphs 44(m), (n), (o), (p), (q), (r), and (s) above.

PART VII – PROCEDURE FOR APPROVAL OF SETTLEMENT

49. The parties will seek approval of this Settlement Agreement at a public hearing before the Commission on a date to be scheduled according to the procedures set out in this Settlement Agreement and the Commission's Rules of Procedure.

50. Staff and the Settling Respondents agree that this Settlement Agreement will form all of the agreed facts that will be submitted at the settlement hearing on the Settling Respondents' conduct, unless the parties agree that additional facts should be submitted at the settlement hearing.

51. If the Commission approves this Settlement Agreement, the Settling Respondents agree to waive all rights to a full hearing, judicial review or appeal of this matter under the Act.

52. If the Commission approves this Settlement Agreement, neither party will make any public statement that is inconsistent with this Settlement Agreement or with any additional agreed facts submitted at the settlement hearing.

53. Whether or not the Commission approves this Settlement Agreement, the Settling Respondents will not use, in any proceeding, this Settlement Agreement or the negotiation or process of approval of this agreement as the basis for any attack on the Commission's jurisdiction, alleged bias, alleged unfairness, or any other remedies or challenges that may otherwise be available.

PART VIII – DISCLOSURE OF SETTLEMENT AGREEMENT

54. If the Commission does not approve this Settlement Agreement or does not make the order attached as Schedule "A" to this Settlement Agreement:

(a) this Settlement Agreement and all discussions and negotiations between Staff and the Settling Respondents before the settlement hearing takes place will be without prejudice to Staff and the Settling Respondents; and

(b) Staff and the Settling Respondents will each be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations contained in the Statement of Allegations. Any proceedings, remedies and challenges will not be affected by this Settlement Agreement, or by any discussions or negotiations relating to this agreement.

55. The terms of the Settlement Agreement will be treated as confidential by all parties hereto until approved by the Commission. Any obligations of confidentiality shall terminate upon approval of the Settlement Agreement by the Commission. The terms of the Settlement Agreement will be treated as confidential forever if the Settlement Agreement is not approved for any reason whatsoever by the Commission, except with the written consent of the Respondents and Staff or as may be required by law.

PART IX – EXECUTION OF SETTLEMENT AGREEMENT

56. This agreement may be signed on one or more counterparts which, together, constitute a binding agreement.

57. A facsimile copy or other electronic copy of any signature will be as effective as an original signature.

Signed in the presence of:

"Tao Zhang"
Witness

"Daniel Maxsood"
Daniel Maxsood

"Daniel Maxsood"
(Print Name)

Dated this 10th day of February, 2016

"Tao Zhang"
Witness

"Daniel Maxsood"
(Print Name)

"Daniel Maxsood
Welcome Place
Per Daniel Maxsood
"I have authority to bind the corporation."

Dated this 10th day of February, 2016

"Daniel Maxsood"
Witness

"Talat Ashraf"
Talat Ashraf

"Talat Ashraf"
(Print Name)

Dated this 10th day of February, 2016

"Daniel Maxsood"
Witness

"Tao Zhang"
Tao Zhang

"Tao Zhang"
(Print Name)

Dated this 10th day of February, 2016

STAFF OF THE ONTARIO SECURITIES COMMISSION

"Tom Atkinson"
Director, Enforcement Branch

Dated this 10th day of February, 2016.

Schedule "A"

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

AND

IN THE MATTER OF
WELCOME PLACE INC.,
DANIEL MAXSOOD also known as MUHAMMAD M. KHAN,
TAO ZHANG, and TALAT ASHRAF

AND

IN THE MATTER OF
A SETTLEMENT AGREEMENT BETWEEN
STAFF OF THE ONTARIO SECURITIES COMMISSION AND
WELCOME PLACE INC.,
DANIEL MAXSOOD also known as MUHAMMAD M. KHAN,
TAO ZHANG, and TALAT ASHRAF

ORDER
(Subsections 127(1) and 127(2) and Section 127.1)

WHEREAS

1. the Ontario Securities Commission (the "Commission") issued a Notice of Hearing (the "Notice of Hearing") pursuant to subsection 127(1) and section 127.1 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") to consider whether it is in the public interest to make orders, as specified therein, against and in respect of Daniel Maxsood, also known as Muhammad M. Khan ("Maxsood"), Welcome Place Inc. ("Welcome Place"), Tao Zhang ("Zhang") and Talat Ashraf ("Ashraf") (the "Respondents"). The Notice of Hearing was issued in connection with the allegations as set out in the Statement of Allegations of Staff of the Commission ("Staff") issued on December 18, 2014 (the "Statement of Allegations");

2. the Respondents entered into a settlement agreement with Staff (the "Settlement Agreement") in which the Respondents agreed to a proposed settlement of the proceeding commenced by the Notice of Hearing, subject to the approval of the Commission;

3. on February 10, 2016, the Commission issued a Notice of Hearing pursuant to section 127 of the Act to announce that it proposed to hold a hearing to consider whether it is in the public interest to approve a settlement agreement entered into between Staff and the Respondents;

4. the Respondents acknowledge that failure to pay in full any monetary sanctions and/or costs ordered will result in the Respondents' names being added to the list of "Respondents Delinquent in Payment of Commission Orders" published on the OSC website;

5. the Commission has reviewed the Settlement Agreement, the Notices of Hearing and the Statement of Allegations of Staff, and heard submissions from counsel for the Respondents and Staff;

6. the Commission is of the opinion that it is in the public interest to make this order;

IT IS ORDERED THAT:

1. the Settlement Agreement is approved;

2. Maxsood, Ashraf and Welcome Place are reprimanded, pursuant to paragraph 6 of subsection 127(1) of the Act;

3. any trading in securities of Welcome Place shall cease permanently, pursuant to paragraph 2 of subsection 127(1) of the Act;

4. any trading in any securities or derivatives by each of Welcome Place and Maxsood shall cease for a period of 10 years, pursuant to paragraph 2 of subsection 127(1) of the Act;

5. any trading in any securities or derivatives by Ashraf shall cease for a period of 5 years, pursuant to paragraph 2 of subsection 127(1) of the Act;

6. the acquisition of any securities by each of Welcome Place and Maxsood is prohibited for a period of 10 years, pursuant to paragraph 2.1 of subsection 127(1) of the Act;

7. the acquisition of any securities by Ashraf is prohibited for a period of 5 years, pursuant to paragraph 2.1 of subsection 127(1) of the Act;

8. any exemptions contained in Ontario securities law do not apply to each of Welcome Place and Maxsood for a period of 10 years, pursuant to paragraph 3 of subsection 127(1) of the Act;

9. any exemptions contained in Ontario securities law do not apply to Ashraf for a period of 5 years, pursuant to paragraph 3 of subsection 127(1) of the Act;

10. each of Maxsood and Ashraf shall resign any positions that he holds as a director or officer of an issuer, pursuant to paragraph 7 of section 127(1);

11. Maxsood is prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager for a period of 10 years, pursuant to paragraphs 8, 8.2 and 8.4 of section 127(1) of the Act;

12. Ashraf is prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager for a period of 5 years, pursuant to paragraphs 8, 8.2 and 8.4 of section 127(1) of the Act;

13. Maxsood shall pay an administrative penalty of $110,000, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act, pursuant to paragraph 9 of section 127(1) of the Act;

14. Ashraf shall pay an administrative penalty of $10,000, on a joint and several basis with Maxsood, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act, pursuant to paragraph 9 of section 127(1) of the Act;

15. Maxsood and Welcome Place shall disgorge $2,967,901.52 to the Commission, on a joint and several basis , which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act, pursuant to paragraph 10 of section 127(1) of the Act;

16. Ashraf shall disgorge $262,186.00, on a joint and several basis with Maxsood, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act, pursuant to paragraph 10 of section 127(1) of the Act;

17. Maxsood and Zhang shall have provided written consent to an order of the Ontario Superior Court on or before February 10, 2016 that funds in the total amount of $662,829.00 held pursuant to the Freeze Directions that were issued on July 2 and 9, 2013 by the Commission and continued by the Ontario Superior Court of Justice on October 16, 2013 be paid to the Commission in partial satisfaction of the disgorgement amounts owing by Maxsood and Welcome Place pursuant to this Order, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act, pursuant to subsection 127(2) of the Act;

18. with respect to the Certificate of Direction on the Property, Maxsood shall have made payment of $382,000 by way of certified cheque to the Commission on or before February 10, 2016 in partial satisfaction of the disgorgement amounts owing by Maxsood and Welcome Place pursuant to this Order, which is designated for allocation or use by the Commission in accordance with section 3.4(2)(b) of the Act, pursuant to subsection 127(2) of the Act. Once the amount of $382,000 has been paid in full, the Commission will consent to an order of the Ontario Superior Court removing the Certificate of Direction from the Property;

19. Maxsood and Welcome Place shall pay $120,000, on a joint and several basis, in respect of costs of the investigation, pursuant to section 127.1 of the Act;

20. Until the entire amount of the payments required by paragraphs 13, 14, 15, 17, 18 and 19 is paid in full, the provisions of paragraphs 4, 6, 8 and 11 shall continue in force without any limitation as to time period; and

21. Until the entire amount of the payments required by paragraphs 14 and 16 is paid in full, the provisions of paragraphs 5, 7, 9 and 12 shall continue in force without any limitation as to time period.

DATED AT TORONTO this _____ day of February, 2016.

_____

Chapter 3

Reasons: Decisions, Orders and Rulings

3.1 OSC Decisions

3.1.1 Majestic Supply Co. Inc. et al. – s. 127

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

AND

IN THE MATTER OF
MAJESTIC SUPPLY CO. INC., SUNCASTLE DEVELOPMENTS CORPORATION,
HERBERT ADAMS, STEVE BISHOP, MARY KRICFALUSI, KEVIN LOMAN
AND CBK ENTERPRISES INC.

REASONS AND DECISION ON SANCTIONS AND COSTS
(Section 127 of the Act)

Hearing:	October 30, 2015		
Decision:	February 12, 2016		
Panel:	Edward P. Kerwin	–	Chair of the Panel
		–	Commissioner
Appearances:	Derek Ferris	–	For Staff of the Commission
	Kevin Richard Martin Mendelzon	–	For Kevin Loman

TABLE OF CONTENTS

I. Introduction

II. History of the Proceeding

III. The Divisional Court Decision

IV. Postions of the Parties
  A. Staff
  B. Respondent

V. The Law on Sanctions

VI. Analysis
  A. Specific Sanctions Factors
  B. Appropriate Sanctions

VII. Conclusion

REASONS AND DECISION

I. INTRODUCTION

[1] This was a hearing before the Ontario Securities Commission (the "Commission") pursuant to section 127 of the *Securities Act* (the "Act")[1] for a fresh determination of certain sanctions ordered against Kevin Loman ("Loman"), which were remitted back to the Commission by the Divisional Court of the Ontario Superior Court of Justice (the "Divisional Court").

[2] For the reasons articulated below, I find that Loman shall be subject to certain prohibitions for eight years from the date of this decision and its corresponding order.

II. HISTORY OF THE PROCEEDING

[3] On February 21, 2013, the Commission issued its Reasons and Decision with respect to the merits (the "Merits Decision"), which found that Loman and others engaged in conduct in breach of the Act.[2]

[4] On November 29, 2013, the Commission issued its Reasons and Decision with respect to sanctions and costs (the "Sanctions Decision") and ordered sanctions and costs against Loman and others.[3]

[5] Loman appealed the Merits Decision and the Sanctions Decision to the Divisional Court.

[6] On June 25, 2015, the Divisional Court dismissed the appeal in respect of the Merits Decision but allowed the appeal with respect to certain of the sanctions imposed against Loman, which sanctions were remitted back to the Commission for a fresh determination (the "Divisional Court Decision").[4]

[7] On August 25 and October 5, 2015, the parties exchanged and filed written sanctions submissions in respect of this hearing.

[8] On October 30, 2015, the parties appeared before the Commission, made oral submissions regarding the appropriateness of certain sanctions to be ordered against Loman and took differing views on which of the sanctions were remitted back to the Commission by the Divisional Court. On that date, the parties requested a short adjournment of this matter in order to seek clarification from the Divisional Court with respect to the scope of the sanctions remitted.

[9] On January 12, 2016, the Divisional Court issued supplementary reasons, which enumerated the provisions of the Commission's sanctions order that are remitted for a fresh determination (the "Supplementary Reasons").[5] On that date, the parties advised the Commission that they had no further written or oral submissions to make.

III. THE DIVISIONAL COURT DECISION

[10] The Divisional Court determined that the Commission erred by misapprehending the facts relating to sanctions imposed by the Alberta Securities Commission ("ASC") on Loman.[6] Loman entered into a settlement agreement with the ASC in 2009, whereby he agreed to three-year bans.[7] The Divisional Court concluded that the Commission attached considerable weight to the "previous ban" imposed by the ASC.[8] The ASC sanctions were not imposed until 2009, after the unregistered trading by Loman in Majestic Supply Co. Inc. ("Majestic") shares took place in 2006 and 2007 and, therefore, the Divisional Court concluded that the ASC sanctions could not have deterred Loman.[9] As a result, the Divisional Court remitted the matter back to the Commission and set aside the 10-year prohibitions on trading, the 10-year prohibitions on being an officer or director, and the administrative penalty of $75,000.[10]

[11] The Supplementary Reasons amended the Divisional Court Decision so as to enumerate the sanctions remitted, by setting aside the ten-year bans imposed upon Loman with respect to:

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1 R.S.O. 1990, c. S.5, as amended.

2 *Re Majestic Supply Co. Inc. et al.* (2013), 36 O.S.C.B. 2104.

3 *Re Majestic Supply Co. Inc. et al.* (2013), 36 O.S.C.B. 11642.

4 *Loman v. Ontario Securities Commission*, 2015 ONSC 4083.

5 *Loman v. Ontario Securities Commission*, 2016 ONSC 135.

6 *Supra* note 4 at para. 11.

7 *Re Essen Capital Inc.*, 2009 ABASC 530.

8 *Supra* note 4 at para. 13.

9 *Supra* note 4 at para. 15.

10 *Supra* note 4 at para. 17.

(a) trading in securities;

(b) the acquisition of securities;

(c) the application of exemptions contained in Ontario securities law;

(d) becoming or acting as an officer or a director of any issuer, registrant or investment fund manager; and

(e) becoming or acting as a registrant, an investment fund manager or as a promoter.[11]

IV. POSITIONS OF THE PARTIES

A. Staff

[12] Staff's position is that notwithstanding the factual error in the Sanctions Decision, the sanctions imposed against Loman – the ten-year bans and the $75,000 administrative penalty - are reasonable, appropriate and should be confirmed.

[13] Staff relies on its original sanctions submissions, submitted to the Commission on March 9, 2013, for the purpose of this remitted sanctions hearing, in which Staff had requested the same prohibitions for a 12-year period and a $100,000 administrative penalty. Nevertheless, Staff clarified that it is not seeking a lengthier penalty than was previously ordered by the Commission.

[14] Staff also submits that I ought to consider a co-respondent's conduct, Ms. Kricfalusi, and the role she played in the distribution of shares, for which the Commission ordered 8-year bans and a $50,000 administrative penalty. Staff argues that Loman's involvement as a salesperson who sold in excess of a million dollars of securities is distinguishable from Kricfalusi's and demonstrates Loman was a more significant player who ought to be sanctioned in a manner that is both proportional and reasonable.

B. Respondent

[15] Loman's counsel submits that the sanctions imposed on Loman should be reduced to a three-year trading ban, a three-year director and officer ban, a three-year registrant, investment fund manager and promoter ban and a $25,000 administrative penalty. Counsel takes the position that any decision by the Commission that the sanctions against Loman should not be reduced would effectively be ignoring and attempting to override the decision of the Divisional Court.

[16] Counsel for Loman submits that sanctions ought to be proportional and distinguishes Loman's conduct from those of other respondents in the same matter, Messers. Adams and Bishop, who were part of the management of Majestic and made prohibited representations and against whom the Commission ordered 20-year and 15-year bans and $300,000 and $100,000 administrative penalties, respectively.

[17] Counsel also notes that Loman has already served approximately 19 months of the bans imposed by the Sanctions Decision. Loman's counsel submits that the three-year bans proposed would take effect from the date of the Commission's decision and order.

V. The Law on Sanctions

[18] I am guided by the purposes of the Act in determining the sanctions that should be imposed upon Loman. Section 1.1 of the Act sets out those purposes: (i) to provide protection to investors from unfair, improper or fraudulent practices; and (ii) to foster fair and efficient capital markets and confidence in those markets.

[19] An order imposing sanctions under section 127 of the Act is intended to be protective and preventative. The purpose is to restrain future conduct that is likely to be prejudicial to the public interest in fair and efficient capital markets. As stated by the Supreme Court of Canada:

> … [t]he role of the OSC under s. 127 is to protect the public interest by removing from the capital markets those whose past conduct is so abusive as to warrant apprehension of future conduct detrimental to the integrity of the capital markets.[12]

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[11] *Supra* note 5 at para. 3.

[12] *Committee for the Equal Treatment of Asbestos Minority Shareholders v. Ontario (Securities Commission)*, [2001] 2 S.C.R. 132, at para. 43.

[20] In determining the appropriate sanctions, I am mindful that the sanctions must be proportionate to both the particular circumstances of the case and the conduct of Loman.[13] To that end, it is important to consider the range of sanctions ordered in similar cases.

[21] The Commission has previously considered the following non-exhaustive list of factors in determining the appropriate sanctions:

(a) The seriousness of the conduct and the breaches of the Act;

(b) The respondent's experience in the marketplace;

(c) The level of a respondent's activity in the marketplace;

(d) Whether or not there has been a recognition by a respondent of the seriousness of the improprieties;

(e) Whether or not the sanctions imposed may serve to deter not only those involved in the case being considered but any like-minded people from engaging in similar abuses of the capital markets;

(f) The size of any profit made or loss avoided from the illegal conduct;

(g) The size of any financial sanction or voluntary payment when considering other factors;

(h) The reputation and prestige of the respondent;

(i) The shame or financial pain that any sanction would reasonably cause to the respondent;

(j) The effect any sanction might have on the livelihood of the respondent;

(k) The restraint any sanction may have on the ability of a respondent to participate without check in the capital markets; and

(l) Any mitigating factors, including the remorse of the respondent.[14]

[22] Deterrence is an important factor that the Commission may consider when determining appropriate sanctions. In *Cartaway*, the Supreme Court of Canada stated that: "…it is reasonable to view general deterrence as an appropriate, and perhaps necessary, consideration in making orders that are both protective and preventative".[15]

[23] The Commission has held that an administrative penalty "may not act as a sufficient deterrent if its magnitude is inadequate compared with the benefit obtained by non-compliance".[16] The panel in *Limelight* stated:

> The purpose of an administrative penalty is to deter the particular respondents from engaging in the same or similar conduct in the future and to send a clear deterrent message to other market participants that the conduct in question will not be tolerated in Ontario capital markets. [17]

[24] While there is no formula for determining an administrative penalty, factors to be considered in determining an appropriate administrative penalty include: the scope and seriousness of the misconduct; whether there were multiple and/or repeated breaches of the Act; whether the respondent realized a profit as a result of the misconduct; the amount of money raised from investors; and the level of administrative penalties imposed in other cases.[18]

VI. ANALYSIS

A. Specific Sanctions Factors

[25] The Commission found that Loman traded in Majestic securities and/or engaged in acts in furtherance of trades in Majestic securities without having been registered under the Act to do so, contrary to former subsection 25(1)(a) of the Act, and engaged in an illegal distribution of securities contrary to subsection 53(1) of the Act, all of which was found to

13 *Re M.C.J.C. Holdings Inc.,* (2002) 25 O.S.C.B. 1133 at 1134.

14 *Re Belteco Holdings Inc.,* (1998) 21 O.S.C.B. 7743 at 7746; *Ibid*. at 1136.

15 *Re Cartaway Resources Corp.*, [2004] 1 S.C.R. 672 at para. 60.

16 *Re Rowan* (2009), 33 O.S.C.B. 91 ("Rowan") at para. 74.

17 *Re Limelight Entertainment Inc.* (2008), 31 O.S.C.B. 12030 ("*Limelight*") at para. 67.

18 *Supra* note 16 at para. 67; *Ibid.* at paras. 71 and 78.

be contrary to the public interest.[19] As stated in the original sanctions decision, registration is a cornerstone of securities law which serves as a gate-keeping function to ensure only properly qualified individuals are permitted to trade with, or on behalf of, the public. In addition, the prospectus fulfills an important disclosure requirement to ensure that investors have the opportunity to make informed decisions.

[26] Loman was a salesperson of Majestic shares who received commissions of $145,250 as a result of his non-compliance with the Act and specifically in respect of sales of Majestic shares to Alberta investors.[20] Loman caused serious harm to those investors.

[27] Loman was registered with the ASC, as a mutual fund salesperson from 2003 to 2005.[21] I note that Loman made no submissions to indicate that he intends to pursue a career as a registrant going forward. However, as a former registrant, Loman ought to have known the registration requirements of Ontario securities law, yet he still traded in or acted in furtherance of trades of securities to the public, which caused serious harm to investors. Loman's market experience is an aggravating factor.

[28] Given the seriousness of the conduct, it is important that Loman and like-minded individuals engaging in such conduct be deterred from doing so in the future by imposing appropriate sanctions, which reflect the harm done to investors. I find that specific deterrence is necessary for Loman in this case. However, I am attuned to the fact that, like in *Morgan Dragon*, Loman was not a proponent of a scheme or a principal of Majestic. [22] On the other hand, Loman did sell and profited from the sale of securities in contravention of the Act.

[29] I accept that Loman's position as an investor in Majestic is a mitigating factor for him. However, despite the submission of counsel that Loman was sharing information with friends or acquaintances, I still do not agree that the nature of Loman's relationships with the Alberta investors is a mitigating factor in his favour. Those relationships do not minimize his responsibility for acting in contravention of the Act.

B. Appropriate Sanctions

[30] In determining the appropriate sanctions, I have remained cognizant of Loman's role and conduct in selling Majestic securities. I have also taken into account the Merits Decision findings of contraventions of the Act, which differ between certain of the respondents involved in the same matter, the submissions of the parties, the evidence and the sanctioning factors considered above.

[31] Loman's conduct warrants the imposition of certain trading, acquisition and exemption prohibitions that are commensurate with his conduct. Participation in the capital markets is a privilege and respondents who wish to re-enter the market should take responsibility for their conduct and recognize the seriousness of their improprieties.[23] I am mindful that the Commission has ordered permanent cease trade bans, acquisition bans and exemption application bans in circumstances where respondents were found to have engaged in unregistered trading, in the absence of findings of fraud.[24]

[32] Loman was a Majestic securities salesperson who was found to have breached subsections 25(1)(a) and 53(1) of the Act and acted contrary to the public interest for his acts in furtherance of trading Majestic shares.[25] Despite being an investor himself, Loman had direct contact with the Alberta investors and received commissions on sales of Majestic shares to a number of those investors.[26] While Loman was not involved in a management capacity with Majestic like the other individual Respondents, he was a former registrant with the ASC, unlike other individual Respondents other than Bishop, and should be held to a higher standard because of his experience as a registrant. I find it appropriate for Loman to be ordered to cease trading in securities, be prohibited from acquiring securities and that exemptions contained in Ontario securities law not apply to Loman for a period of eight years.

[33] I previously disagreed and currently disagree with the length of Staff's proposed trading, acquisition and exemption sanctions for Loman. In *Limelight* the salesman, Daniels, received 10-year prohibitions with respect to trading and removal of exemptions, subject to a carve-out for RRSPs.[27] I find that more proportionate prohibitions on trading, acquisition and exemption in the case Loman would be orders for eight years from the date of this decision and the

19 *Supra* note 2 at para. 223.

20 *Supra* note 2 at para. 160.

21 *Supra* note 2 at para. 15.

22 *Re Morgan Dragon Development Corp.* (2014), 37 OSCB 8511 ("Morgan Dragon") at para. 29.

23 *Erikson v. Ontario (Securities Commission)*, [2003] OJ No. 593 at paras. 55-56.

24 *Re Maple Leaf Investment Fund Corp. et al.* (2012), 35 O.S.C.B. 3075 ("*Maple Leaf*") at paras. 8 and 55.

25 *Supra* note 2 at paras. 161-162 and 223.

26 *Supra* note 2 at para. 160.

27 *Supra* note 17 at para. 42.

corresponding order. In coming to my conclusion, I have taken into account the period of 19 months during which Loman was already subject to such bans and the fact that Loman's position as an investor is a mitigating factor for him.

[34] In my view, Loman should not be granted any exception for personal trading because he cannot be trusted to participate in Ontario's capital markets even in a limited capacity.

[35] Also, given Loman's misconduct, he should not be immediately entitled to become or act as a registrant, investment fund manager or as a promoter. Loman was a former registrant with the ASC. To protect the public, I find that it is appropriate to impose market prohibitions on Loman for eight years.

[36] I note that permanent director and officer bans, coupled with permanent trading, acquisition and exemption prohibitions, were found to be appropriate in *Ochnik.* In that matter, a respondent had violated sections 25 and 53, but also engaged in misleading and deceptive behaviour.[28] Similar sanctions were ordered against the respondent who breached section 25 in *Maple Leaf.* [29]

[37] Loman engaged in conduct for the purpose of trading or acting in furtherance of unregistered trading in securities and he received funds through his company, Essen Inc., as a vehicle for payment of commissions due to him from sales of Majestic shares.[30] The use of Loman's position to further conduct contrary to the Act and contrary to the public interest guides me in my decision that he should be prohibited for a period of eight years from becoming or acting as an officer or director of any issuer, registrant or investment fund manager. However, having heard and considered the submissions of Loman's counsel, I am prepared to allow that Loman be granted a carve-out to act as a director or officer of an issuer that:

(a) is wholly owned by one or more of himself or members of his immediate family;

(b) does not issue or propose to issue securities or exchange contracts to the public; and

(c) does not, directly or indirectly, trade in or distribute, advise in respect of trades or distributions of, or promote the purchase or sale of, securities or exchange contracts of any issuer.

[38] In my view, the imposition of director and officer bans, even subject to the carve-out, will ensure that Loman will not be placed in a position of control or trust with respect to issuers, registrants or investment fund managers in the near future. These orders serve to ensure general and specific deterrence for Loman and like-minded individuals.

[39] In *Maple Leaf*, the Commission ordered a respondent who engaged in unregistered trading and unregistered advising to pay an administrative penalty of $200,000. [31] In *Morgan Dragon*, respondent salespersons were ordered by the Commission to pay administrative penalties of $30,000 and $15,000 commensurate with their conduct.[32]

[40] The scope and seriousness of Loman's misconduct warrants a strong deterrent message. As a salesperson, Loman violated several key provisions of the Act, but he was not intimately involved in Majestic's management nor found to have made prohibited representations with respect to future listing of Majestic shares as Bishop was, for instance. [33] Nevertheless, Loman engaged in multiple and repeated breaches of the Act and realized a profit of at least $145,250 as commissions from sales of Majestic shares. For these reasons, I consider an administrative penalty of $60,000 to be more appropriately linked to Loman's misconduct in this case and proportional.

CONCLUSION

[41] For the reasons stated above, I find that it is in the public interest to order the following, and will issue a separate order to that effect:

(a) pursuant to clause 2 of subsection 127(1) of the Act, that Loman shall cease trading in securities for a period of 8 years;

(b) pursuant to clause 2.1 of subsection 127(1) of the Act, that Loman shall be prohibited from acquiring securities for a period of 8 years;

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28 *Re Ochnik*, 29 O.S.C.B. 3929 at paras.92 and 108-113.

29 *Supra* note 24.

30 *Supra* note 2 at paras. 15, 83, 93 and 160.

31 *Supra* note 24.

32 *Supra* note 22 at para. 62.

33 *Supra* note 2 at para. 223.

(c) pursuant to clause 3 of subsection 127(1) of the Act, that any exemptions contained in Ontario securities law do not apply to Loman for a period of 8 years;

(d) pursuant to clauses 8, 8.2 and 8.4 of subsection 127(1) of the Act, that Loman is prohibited for a period of 8 years from becoming or acting as an officer or director of any issuer, registrant or investment fund manager, except that Loman may act as a director or officer of an issuer that:

i. is wholly owned by one or more of himself or members of his immediate family;

ii. does not issue or propose to issue securities or exchange contracts to the public; and

iii. does not, directly or indirectly, trade in or distribute, advise in respect of trades or distributions of, or promote the purchase or sale of, securities or exchange contracts of any issuer;

(e) pursuant to clause 8.5 of subsection 127(1) of the Act, that Loman is prohibited for a period of 8 years from becoming or acting as a registrant, investment fund manager or as a promoter; and

(f) pursuant to clause 9 of subsection 127(1) of the Act, that Loman shall pay $60,000 as an administrative penalty, designated for allocation or for use by the Commission in accordance with subsection 3.4(2)(b) of the Act;

Dated at Toronto this 12th day of February, 2016.

"Edward P. Kerwin"
Edward P. Kerwin

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Chapter 4

Cease Trading Orders

4.1.1 Temporary, Permanent & Rescinding Issuer Cease Trading Orders

Company Name	Date of Temporary Order	Date of Hearing	Date of Permanent Order	Date of Lapse/Revoke

THERE IS NOTHING TO REPORT THIS WEEK.

Failure to File Cease Trade Orders

Company Name	Date of Order	Date of Revocation
Sniper Resources Ltd.	11 February 2016	

4.2.1 Temporary, Permanent & Rescinding Management Cease Trading Orders

Company Name	Date of Order or Temporary Order	Date of Hearing	Date of Permanent Order	Date of Lapse/ Expire	Date of Issuer Temporary Order
Almonty Industries Inc.	29 January 2016	10 February 2016		11 February 2016	
Boomerang Oil, Inc.	29 January 2016	10 February 2016	10 February 2016		

4.2.2 Outstanding Management & Insider Cease Trading Orders

Company Name	Date of Order or Temporary Order	Date of Hearing	Date of Permanent Order	Date of Lapse/ Expire	Date of Issuer Temporary Order
Almonty Industries Inc.	29 January 2016	10 February 2016		11 February 2016	
Boomerang Oil, Inc.	29 January 2016	10 February 2016	10 February 2016		
Cerro Grande Mining Corporation	4 February 2016	17 February 2016			
Enerdynamic Hybrid Technologies Corp.	4 November 2015	16 November 2015	16 November 2015		
Enerdynamic Hybrid Technologies Corp.	22 October 2015	4 November 2015	4 November 2015		
Enerdynamic Hybrid Technologies Corp.	15 October 2015	28 October 2015	28 October 2015		
Starrex International Ltd.	30 December 2015	11 January 2016	11 January 2016		
Tango Mining Limited	7 January 2016	20 January 2016	20 January 2016		

Company Name	Date of Order or Temporary Order	Date of Hearing	Date of Permanent Order	Date of Lapse/ Expire	Date of Issuer Temporary Order
West Red Lake Gold Mines Inc.	24 December 2015	6 January 2016	6 January 2016		

Chapter 5

Rules and Policies

5.1.1 NI 24-102 Clearing Agency Requirements, Forms and Companion Policy

NATIONAL INSTRUMENT 24-102
CLEARING AGENCY REQUIREMENTS

TABLE OF CONTENTS

PART 1	–	DEFINITIONS, INTERPRETATION AND APPLICATION
PART 2	–	CLEARING AGENCY RECOGNITION OR EXEMPTION FROM RECOGNITION
PART 3	–	PFMI PRINCIPLES APPLICABLE TO RECOGNIZED CLEARING AGENCIES
PART 4	–	OTHER REQUIREMENTS OF RECOGNIZED CLEARING AGENCIES
		Division 1 – Governance
		Division 2 – Default management
		Division 3 – Operational risk
		Division 4 – Participation requirements
PART 5	–	BOOKS AND RECORDS AND LEGAL ENTITY IDENTIFIER
PART 6	–	EXEMPTIONS
PART 7	–	EFFECTIVE DATE AND TRANSITION
FORMS		Form 24-102F1 – *Clearing Agency Submission to Jurisdiction and Appointment of Agent for Service of Process*
		Form 24-102F2 – *Cessation of Operations Report for Clearing Agency*

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NATIONAL INSTRUMENT 24-102
CLEARING AGENCY REQUIREMENTS

PART 1
DEFINITIONS, INTERPRETATION AND APPLICATION

Definitions

1.1 In this Instrument

"accounting principles" means accounting principles as defined in National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*;

"auditing standards" means auditing standards as defined in National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*;

"board of directors" means, in the case of a recognized clearing agency that does not have a board of directors, a group of individuals that acts for the clearing agency in a capacity similar to a board of directors;

"central counterparty" means a person or company that interposes itself between the counterparties to securities or derivatives transactions in one or more financial markets, acting functionally as the buyer to every seller and the seller to every buyer or the counterparty to every party;

"central securities depository" means a person or company that provides centralized facilities as a depository of securities, including securities accounts, central safekeeping services and asset services, which may include the administration of corporate actions and redemptions;

"exempt clearing agency" means a clearing agency that has been granted a decision of the securities regulatory authority pursuant to securities legislation exempting it from the requirement in such legislation to be recognized by the securities regulatory authority as a clearing agency;

"link" means, in relation to a clearing agency, contractual and operational arrangements that directly or indirectly through an intermediary connect the clearing agency and one or more other systems for the clearing, settlement or recording of securities or derivatives transactions;

"participant" means a person or company that has entered into an agreement with a clearing agency to access the services of the clearing agency and is bound by the clearing agency's rules and procedures;

"PFMI Disclosure Framework Document" means a disclosure document completed substantially in the form of *Annex A: FMI disclosure template* of the December 2012 report *Principles for financial market infrastructures: Disclosure framework and Assessment methodology* published by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions, as amended, supplemented or superseded from time to time, or a similar disclosure document required to be completed regularly and disclosed publicly by a clearing agency in accordance with the regulatory requirements of a foreign jurisdiction in which the clearing agency is located;

"PFMI Principle" means a principle, including applicable key considerations, in the April 2012 report *Principles for financial market infrastructures* published by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions, as amended from time to time;

"publicly accountable enterprise" means a publicly accountable enterprise as defined in Part 3 of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards;

"securities settlement system" means a system that enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules.

Interpretation - Affiliated Entity, Controlled Entity and Subsidiary Entity

1.2 (1) In this Instrument, a person or company is considered to be an affiliated entity of another person or company if one is a subsidiary entity of the other or if both are subsidiary entities of the same person or company, or if each of them is a controlled entity of the same person or company.

(2) In this Instrument, a person or company is considered to be controlled by a person or company if

(a) in the case of a person or company,

(i) voting securities of the first-mentioned person or company carrying more than fifty percent of the votes for the election of directors are held, otherwise than by way of security only, by or for the benefit of the other person or company, and

(ii) the votes carried by the securities are entitled, if exercised, to elect a majority of the directors of the first-mentioned person or company;

(b) in the case of a partnership that does not have directors, other than a limited partnership, the second-mentioned person or company holds more than fifty percent of the interests in the partnership; or

(c) in the case of a limited partnership, the general partner is the second-mentioned person or company.

(3) In this Instrument, a person or company is considered to be a subsidiary entity of another person or company if

(a) it is a controlled entity of

(i) that other,

(ii) that other and one or more persons or companies, each of which is a controlled entity of that other, or

(iii) two or more persons or companies, each of which is a controlled entity of that other; or

(b) it is a subsidiary entity of a person or company that is the other's subsidiary entity.

Interpretation – Extended Meaning of Affiliated Entity

1.3 For the purposes of the PFMI Principles, a person or company is considered to be an affiliate of a participant, the person or company and the participant each being described in this section as a “party”, where,

(a) a party holds, otherwise than by way of security only, voting securities of the other party carrying more than 20 percent of the votes for the election of directors, or

(b) in the event paragraph (a) is not applicable,

(i) a party holds, otherwise than by way of security only, an interest in the other party that allows it to direct the management or operations of the other party; or

(ii) financial information in respect of both parties is consolidated for financial reporting purposes.

Interpretation – Clearing Agency

1.4 For the purposes of this Instrument, in Québec, a clearing agency includes a clearing house, a central securities depository and a settlement system within the meaning of the Québec *Securities Act* and a clearing house and a settlement system within the meaning of the Québec *Derivatives Act*.

Application

1.5 (1) Part 3 applies to a recognized clearing agency that operates as any of the following:

(a) a central counterparty;

(b) a central securities depository;

(c) a securities settlement system.

(2) Unless the context otherwise indicates, Part 4 applies to a recognized clearing agency whether or not it operates as a central counterparty, central securities depository or securities settlement system.

(3) In Québec, if there is a conflict or an inconsistency between section 2.2 and the provisions of the Québec *Derivatives Act* governing the self-certification process with respect to a clearing agency implementing a significant change or a fee change, the provisions of the Québec *Derivatives Act* prevail.

(4) The requirements of section 2.2 or 2.5 apply only to the extent that the subject matters of the section are not otherwise governed by the terms and conditions of a decision of the securities regulatory authority that recognizes a clearing agency or that exempts a clearing agency from a recognition requirement.

PART 2
CLEARING AGENCY RECOGNITION OR EXEMPTION FROM RECOGNITION

Application and initial filing of information

2.1 (1) An applicant for recognition as a clearing agency under securities legislation, or for exemption from the requirement to be recognized as a clearing agency under securities legislation, must include in its application all of the following:

(a) if applicable, the applicant's most recently completed PFMI Disclosure Framework Document;

(b) sufficient information to demonstrate that the applicant is in compliance with

(i) provincial and territorial securities legislation, or

(ii) the regulatory regime of a foreign jurisdiction in which the applicant's head office or principal place of business is located;

(c) any additional relevant information sufficient to demonstrate that it is in the public interest for the securities regulatory authority to recognize or exempt the applicant, as the case may be.

(2) In addition to the requirement set out in subsection (1), an applicant that has a head office or principal place of business located in a foreign jurisdiction must

(a) certify that it will assist the securities regulatory authority in accessing the applicant's books and records and in undertaking an onsite inspection and examination at the applicant's premises, and

(b) certify that it will provide the securities regulatory authority, if requested by such authority, with an opinion of legal counsel that the applicant has, as a matter of law, the power and authority to

(i) provide the securities regulatory authority with prompt access to its books and records, and

(ii) submit to onsite inspection and examination by the securities regulatory authority.

(3) In addition to the requirements set out in subsections (1) and (2), an applicant whose head office or principal place of business is located in a foreign jurisdiction must file a completed Form 24-102F1 *Submission to Jurisdiction and Appointment of Agent for Service*.

(4) An applicant must inform the securities regulatory authority in writing of any material change to the information provided in its application, or if any of the information becomes materially inaccurate for any reason, as soon as the change occurs or the applicant becomes aware of any inaccuracy.

Significant changes, fee changes and other changes in information

2.2 (1) In this section, for greater certainty, a "significant change" includes, in relation to a clearing agency,

(a) any change to the clearing agency's constating documents or by-laws;

(b) any change to the clearing agency's corporate governance or corporate structure, including any change of control of the clearing agency, whether direct or indirect;

(c) any material change to an agreement among the clearing agency and participants in connection with the clearing agency's operations and services, including those agreements to which the clearing agency is a party and those agreements among participants to which the clearing agency is not a party, but that are expressly referred to in the clearing agency's rules or procedures and are made available by participants to the clearing agency;

(d) any material change to the clearing agency's rules, operating procedures, user guides, manuals, or other documentation governing or establishing the rights, obligations and relationships among the clearing agency and participants in connection with the clearing agency's operations and services;

(e) any material change to the design, operation or functionality of any of the clearing agency's operations and services;

(f) the establishment or removal of a link or any material change to an existing link;

(g) commencing to engage in a new type of business activity or ceasing to engage in a business activity in which the clearing agency is then engaged;

(h) any other matter identified as a significant change in the recognition terms and conditions.

(2) Subject to subsection (4), a recognized clearing agency must not implement a significant change unless it has filed a written notice of the significant change with the securities regulatory authority at least 45 days before implementing the change.

(3) If a proposed significant change referred to in subsection (2) would affect the information set out in its PFMI Disclosure Framework Document filed with the securities regulatory authority, a recognized clearing agency must complete and file with the securities regulatory authority, concurrently with providing the written notice referred to in subsection (2), an appropriate amendment to its PFMI Disclosure Framework Document.

(4) If a recognized clearing agency proposes to modify a fee or introduce a new fee for any of its clearing, settlement or depository services, the clearing agency must notify in writing the securities regulatory authority of such fee change before implementing the fee change within a period stipulated by the terms and conditions of a decision of the securities regulatory authority that recognizes the clearing agency.

(5) An exempt clearing agency must notify in writing the securities regulatory authority of any material change to the information provided to the securities regulatory authority in its PFMI Disclosure Framework Document and related application materials, or if any of the information becomes materially inaccurate for any reason, as soon as the change occurs or the exempt clearing agency becomes aware of any inaccuracy.

Ceasing to carry on business

2.3 (1) A recognized clearing agency or exempt clearing agency that intends to cease carrying on business in the local jurisdiction as a clearing agency must file a report on Form 24-102F2 *Cessation of Operations Report for Clearing Agency* with the securities regulatory authority

(a) at least 180 days before ceasing to carry on business if a significant reason for ceasing to carry on business relates to the clearing agency's financial viability or any other matter that is preventing, or may potentially prevent, it from being able to provide its operations and services as a going concern, or

(b) at least 90 days before ceasing to carry on business for any other reason.

(2) A recognized clearing agency or exempt clearing agency that involuntarily ceases to carry on business in the local jurisdiction as a clearing agency must file a report on Form 24-102F2 *Cessation of Operations Report for Clearing Agency* with the securities regulatory authority as soon as practicable after it ceases to carry on that business.

Filing of initial audited financial statements

2.4 (1) An applicant must file audited financial statements for its most recently completed financial year with the securities regulatory authority as part of its application under section 2.1.

(2) The financial statements referred to in subsection (1) must

(a) be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises, IFRS or the generally accepted accounting principles of the foreign jurisdiction in which the person or company is incorporated, organized or located,

(b) identify in the notes to the financial statements the accounting principles used to prepare the financial statements,

(c) disclose the presentation currency, and

(d) be audited in accordance with Canadian GAAS, International Standards on Auditing or the generally accepted auditing standards of the foreign jurisdiction in which the person or company is incorporated, organized or located.

(3) The financial statements referred to in subsection (1) must be accompanied by an auditor's report that

(a) expresses an unmodified or unqualified opinion,

(b) identifies all financial periods presented for which the auditor's report applies,

(c) identifies the auditing standards used to conduct the audit,

(d) identifies the accounting principles used to prepare the financial statements,

(e) is prepared in accordance with the same auditing standards used to conduct the audit, and

(f) is prepared and signed by a person or company that is authorized to sign an auditor's report under the laws of a jurisdiction of Canada or a foreign jurisdiction, and that meets the professional standards of that jurisdiction.

Filing of annual audited and interim financial statements

2.5 (1) A recognized clearing agency or exempt clearing agency must file annual audited financial statements that comply with the requirements set out in subsections 2.4(2) and (3) with the securities regulatory authority no later than the 90th day after the end of the recognized clearing agency or exempt clearing agency's financial year.

(2) A recognized clearing agency or exempt clearing agency must file interim financial statements that comply with the requirements set out in paragraphs 2.4(2)(a) and (2)(b) with the securities regulatory authority no later than the 45th day after the end of each interim period.

PART 3
PFMI PRINCIPLES APPLICABLE TO RECOGNIZED CLEARING AGENCIES

PFMI Principles

3.1 A recognized clearing agency must establish, implement and maintain rules, procedures, policies or operations designed to ensure that it meets or exceeds PFMI Principles 1 to 3, 10, 13, 15 to 19, 20 other than key consideration 9, 21 to 23 and the following:

(a) if the clearing agency operates as a central counterparty, PFMI Principles 4 to 9, 12 and 14;

(b) if the clearing agency operates as a securities settlement system, PFMI Principles 4, 5, 7 to 9 and12; and

(c) if the clearing agency operates as a central securities depository, PFMI Principle 11.

PART 4
OTHER REQUIREMENTS OF RECOGNIZED CLEARING AGENCIES

Division 1 – Governance:

Board of directors

4.1 (1) A recognized clearing agency must have a board of directors.

(2) The board of directors must include appropriate representation by individuals who are

(a) independent of the clearing agency, and

(b) not employees or executive officers of a participant or their immediate family members.

(3) For the purposes of paragraph (2)(a), an individual is independent of a clearing agency if he or she has no direct or indirect material relationship with the clearing agency.

(4) For the purposes of subsection (3), a "material relationship" is a relationship that could, in the view of the clearing agency's board of directors, be reasonably expected to interfere with the exercise of a member's independent judgment.

Documented procedures regarding risk spill-overs

4.2 The board of directors and management of a recognized clearing agency must have documented procedures to manage possible risk spill over where the clearing agency provides services with a different risk profile than its depository, clearing and settlement services.

Chief Risk Officer and Chief Compliance Officer

4.3 (1) A recognized clearing agency must designate a chief risk officer and a chief compliance officer, who must report directly to the board of directors or, if determined by the board of directors, to the chief executive officer of the clearing agency.

(2) The chief risk officer must

(a) have full responsibility and authority to maintain, implement and enforce the risk management framework established by the clearing agency,

(b) make recommendations to the clearing agency's board of directors regarding the clearing agency's risk management framework,

(c) monitor the effectiveness of the clearing agency's risk management framework, and

(d) report to the clearing agency's board of directors on a timely basis upon becoming aware of any significant deficiency with the risk management framework.

(3) The chief compliance officer must

(a) establish, implement, maintain and enforce written policies and procedures to identify and resolve conflicts of interest and ensure that the clearing agency complies with securities legislation,

(b) monitor compliance with the policies and procedures described in paragraph (a),

(c) report to the board of directors of the clearing agency as soon as practicable upon becoming aware of any circumstance indicating that the clearing agency, or any individual acting on its behalf, is not in compliance with securities legislation and one or more of the following apply:

(i) the non-compliance creates a risk of harm to a participant,

(ii) the non-compliance creates a risk of harm to the broader financial system,

(iii) the non-compliance is part of a pattern of non-compliance, or

(iv) the non-compliance may have an impact on the ability of the clearing agency to carry on business in compliance with securities legislation,

(d) prepare and certify an annual report assessing compliance by the clearing agency, and individuals acting on its behalf, with securities legislation and submit the report to the board of directors,

(e) report to the clearing agency's board of directors as soon as practicable upon becoming aware of a conflict of interest that creates a risk of harm to a participant or to the capital markets, and

(f) concurrently with submitting a report under paragraphs (c), (d) or (e), file a copy of such report with the securities regulatory authority.

Board or advisory committees

4.4 (1) The board of directors of a recognized clearing agency must, at a minimum, establish and maintain committees on risk management, finance and audit.

(2) If a committee is a board committee, it must be chaired by a sufficiently knowledgeable individual who is independent of the clearing agency.

(3) Subject to subsection (4), a committee must have an appropriate representation by individuals who are independent of the clearing agency.

(4) An audit or risk committee must have an appropriate representation by individuals who are

(a) independent of the clearing agency, and

(b) not employees or executive officers of a participant or their immediate family members.

Division 2 – Default management:

Use of own capital

4.5 A recognized clearing agency that operates as a central counterparty must dedicate and use a reasonable portion of its own capital to cover losses resulting from one or more participant defaults.

Division 3 – Operational risk:

Systems requirements

4.6 For each system operated by or on behalf of a recognized clearing agency that supports the clearing agency's clearing, settlement and depository functions, the clearing agency must

(a) develop and maintain

(i) an adequate system of internal controls over that system, and

(ii) adequate information technology general controls, including, without limitation, controls relating to information systems operations, information security, change management, problem management, network support and system software support,

(b) in accordance with prudent business practice, on a reasonably frequent basis and, in any event, at least annually

(i) make reasonable current and future capacity estimates, and

(ii) conduct capacity stress tests to determine the ability of that system to process transactions in an accurate, timely and efficient manner, and

(c) promptly notify the regulator or, in Québec, the securities regulatory authority of any material systems failure, malfunction, delay or security breach, and provide timely updates on the status of the failure, malfunction, delay or security breach, the resumption of service, and the results of the clearing agency's internal review of the failure, malfunction, delay or security breach.

Systems reviews

4.7 (1) A recognized clearing agency must annually engage a qualified party to conduct an independent systems review and vulnerability assessment and prepare a report in accordance with established audit standards and best industry practices to ensure that the clearing agency is in compliance with paragraph 4.6(a) and section 4.9.

(2) The clearing agency must provide the report resulting from the review conducted under subsection (1) to

(a) its board of directors, or audit committee, promptly upon the report's completion, and

(b) the regulator or, in Québec, the securities regulatory authority, by the earlier of the 30th day after providing the report to its board of directors or the audit committee or the 60th day after the calendar year end.

Clearing agency technology requirements and testing facilities

4.8 (1) A recognized clearing agency must make available to participants, in their final form, all technology requirements regarding interfacing with or accessing the clearing agency

(a) if operations have not begun, sufficiently in advance of operations to allow a reasonable period for testing and system modification by participants, and

(b) if operations have begun, sufficiently in advance of implementing a material change to technology requirements to allow a reasonable period for testing and system modification by participants.

(2) After complying with subsection (1), the clearing agency must make available testing facilities for interfacing with or accessing the clearing agency

(a) if operations have not begun, sufficiently in advance of operations to allow a reasonable period for testing and system modification by participants, and

(b) if operations have begun, sufficiently in advance of implementing a material change to technology requirements to allow a reasonable period for testing and system modification by participants.

(3) The clearing agency must not begin operations before

(a) it has complied with paragraphs (1)(a) and (2)(a), and

(b) the chief information officer of the clearing agency, or an individual performing a similar function, has certified in writing to the regulator or, in Québec, the securities regulatory authority, that all information technology systems used by the clearing agency have been tested according to prudent business practices and are operating as designed.

(4) The clearing agency must not implement a material change to the systems referred to in section 4.6 before

(a) it has complied with paragraphs (1)(b) and (2)(b), and

(b) the chief information officer of the clearing agency, or an individual performing a similar function, has certified in writing to the regulator or, in Québec, the securities regulatory authority, that the change has been tested according to prudent business practices and is operating as designed.

(5) Subsection (4) does not apply to the clearing agency if the change must be made immediately to address a failure, malfunction or material delay of its systems or equipment and if

(a) the clearing agency immediately notifies the regulator or, in Québec, the securities regulatory authority, of its intention to make the change, and

(b) the clearing agency discloses to its participants the changed technology requirements as soon as practicable.

Testing of business continuity plans

4.9 A recognized clearing agency must

(a) develop and maintain reasonable business continuity plans, including disaster recovery plans, and

(b) test its business continuity plans, including its disaster recovery plans, according to prudent business practices and on a reasonably frequent basis and, in any event, at least annually.

Outsourcing

4.10 If a recognized clearing agency outsources a critical service or system to a service provider, including to an affiliated entity of the clearing agency, the clearing agency must do all of the following:

(a) establish, implement, maintain and enforce written policies and procedures to conduct suitable due diligence for selecting service providers to which a critical service and system may be outsourced and for the evaluation and approval of those outsourcing arrangements;

(b) identify any conflicts of interest between the clearing agency and the service provider to which a critical service and system is outsourced, and establish, implement, maintain and enforce written policies and procedures to mitigate and manage those conflicts of interest;

(c) enter into a written contract with the service provider to which a critical service or system is outsourced that
  (i) is appropriate for the materiality and nature of the outsourced activities,
  (ii) includes service level provisions, and
  (iii) provides for adequate termination procedures;

(d) maintain access to the books and records of the service provider relating to the outsourced activities;

(e) ensure that the securities regulatory authority has the same access to all data, information and systems maintained by the service provider on behalf of the clearing agency that it would have absent the outsourcing arrangements;

(f) ensure that all persons conducting audits or independent reviews of the clearing agency under this Instrument have appropriate access to all data, information and systems maintained by the service provider on behalf of the clearing agency that such persons would have absent the outsourcing arrangements;

(g) take appropriate measures to determine that the service provider to which a critical service or system is outsourced establishes, maintains and periodically tests an appropriate business continuity plan, including a disaster recovery plan;

(h) take appropriate measures to ensure that the service provider protects the clearing agency's proprietary information and participants' confidential information, including taking measures to protect information from loss, thefts, vulnerabilities, threats, unauthorized access, copying, use and modification, and discloses it only in circumstances where legislation or an order of a court or tribunal of competent jurisdiction requires the disclosure of such information;

(i) establish, implement, maintain and enforce written policies and procedures to monitor the ongoing performance of the service provider's contractual obligations under the outsourcing arrangements.

Division 4 – Participation requirements:

Access requirements and due process

4.11 (1) A recognized clearing agency must not

(a) unreasonably prohibit, condition or limit access by a person or company to the services offered by the clearing agency,

(b) unreasonably discriminate among its participants or indirect participants,

(c) impose any burden on competition that is not reasonably necessary and appropriate,

(d) unreasonably require the use or purchase of another service for a person or company to utilize the clearing agency's services offered by it, and

(e) impose fees or other material costs on its participants that are unfairly or inequitably allocated among the participants.

(2) For any decision made by the clearing agency that terminates, suspends or restricts a participant's membership in the clearing agency or that declines entry to membership to an applicant that applies to become a participant, the clearing agency must ensure that

(a) the participant or applicant is given an opportunity to be heard or make representations, and

(b) it keeps records of, gives reasons for, and provides for reviews of its decisions, including, for each applicant, the reasons for granting access or for denying or limiting access to the applicant, as the case may be.

(3) Nothing in subsection (2) limits or prevents the clearing agency from taking timely action in accordance with its rules and procedures to manage the default of one or more participants or in connection with the clearing agency's recovery or orderly wind-down, whether or not such action adversely affects a participant.

PART 5
BOOKS AND RECORDS AND LEGAL ENTITY IDENTIFIER

Books and records

5.1 (1) A recognized clearing agency or exempt clearing agency must keep books, records and other documents as are necessary to account for the conduct of its clearing, settlement and depository activities, business transactions and financial affairs and must keep those other books, records and documents as may otherwise be required under securities legislation.

(2) The clearing agency must retain the books and records maintained under this section

(a) for a period of seven years from the date the record was made or received, whichever is later,

(b) in a safe location and a durable form, and

(c) in a manner that permits them to be provided promptly to the securities regulatory authority.

Legal Entity Identifier

5.2 (1) In this section,

"Global Legal Entity Identifier System" means the system for unique identification of parties to financial transactions developed by the LEI Regulatory Oversight Committee, and

"LEI Regulatory Oversight Committee" means the international working group established by the Finance Ministers and the Central Bank Governors of the Group of Twenty nations and the Financial Stability Board, under the Charter of the Regulatory Oversight Committee for the Global Legal Entity Identifier System dated November 5, 2012.

(2) For the purposes of any recordkeeping and reporting requirements required under securities legislation, a recognized clearing agency or exempt clearing agency must identify itself by means of a single legal entity identifier assigned to the clearing agency in accordance with the standards set by the Global Legal Entity Identifier System.

(3) If the Global Legal Entity Identifier System is unavailable to the clearing agency, all of the following apply:

(a) the clearing agency must obtain a substitute legal entity identifier that complies with the standards established by the LEI Regulatory Oversight Committee for pre-legal entity identifiers;

(b) the clearing agency must use the substitute legal entity identifier until a legal entity identifier is assigned to the clearing agency in accordance with the standards set by the Global Legal Entity Identifier System;

(c) after the holder of a substitute legal entity identifier is assigned a legal entity identifier in accordance with the standards set by the Global Legal Entity Identifier System, the clearing agency must ensure that it is identified only by the assigned identifier.

PART 6
EXEMPTIONS

Exemption

6.1 (1) The regulator or the securities regulatory authority may grant an exemption from the provisions of this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.

(2) Despite subsection (1), in Ontario, only the regulator may grant an exemption.

(3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of National Instrument 14-101 *Definitions* opposite the name of the local jurisdiction.

PART 7
EFFECTIVE DATE AND TRANSITION

Effective date and transition

7.1 (1) This Instrument comes into force on February 17, 2016.

(2) Despite section 3.1, until December 31, 2016, a recognized clearing agency is not required to implement rules, procedures, policies or operations designed to ensure that a recognized clearing agency meets or exceeds the following:

(a) PFMI Principle 14;

(b) key consideration 4 of PFMI Principle 3 and key consideration 3 of PFMI Principle 15 with respect to a clearing agency's recovery and orderly wind-down plans; and

(c) PFMI Principle 19.

(3) In Saskatchewan, despite subsection (1), if these regulations are filed with the Registrar of Regulations after February 17, 2016, these regulations come into force on the day on which they are filed with the Registrar of Regulations.

FORM 24-102F1
CLEARING AGENCY SUBMISSION TO JURISDICTION AND APPOINTMENT OF AGENT FOR SERVICE OF PROCESS

1. Name of clearing agency (the "Clearing Agency"):

   _____

2. Jurisdiction of incorporation, or equivalent, of Clearing Agency:

   _____

3. Address of principal place of business of Clearing Agency:

   _____

4. Name of the agent for service of process (the "Agent") for the Clearing Agency:

   _____

5. Address of the Agent in _____ [name of local jurisdiction]:

   _____

6. The _____ [name of securities regulatory authority] ("securities regulatory authority") issued an order recognizing the Clearing Agency as a clearing agency pursuant to securities legislation, or the securities regulatory authority issued an order exempting the Clearing Agency from the requirement to be recognized as a clearing agency pursuant to such legislation, on _____.

7. The Clearing Agency designates and appoints the Agent as its agent upon whom may be served a notice, pleading, subpoena, summons or other process in any action, investigation or administrative, criminal, quasi-criminal, penal or other proceeding arising out of or relating to or concerning the activities of the Clearing Agency in _____ [province of local jurisdiction]. The Clearing Agency hereby irrevocably waives any right to challenge service upon its Agent as not binding upon the Clearing Agency.

8. The Clearing Agency agrees to unconditionally and irrevocably attorn to the non-exclusive jurisdiction of (i) the courts and administrative tribunals of _____ [name of local jurisdiction] and (ii) any proceeding in any province or territory arising out of, related to, concerning or in any other manner connected with the regulation and oversight of the activities of the Clearing Agency in _____ [name of local jurisdiction].

9. The Clearing Agency must file a new submission to jurisdiction and appointment of agent for service of process in this form at least 30 days before the Clearing Agency ceases to be recognized or exempted by the securities regulatory authority, to be in effect for six years from the date it ceases to be recognized or exempted unless otherwise amended in accordance with section 10.

10. Until six years after it has ceased to be a recognized or exempted by the securities regulatory authority, the Clearing Agency must file an amended submission to jurisdiction and appointment of agent for service of process at least 30 days before any change in the name or above address of the Agent.

11. The Clearing Agency agrees that this submission to jurisdiction and appointment of agent for service of process is to be governed by and construed in accordance with the laws of _____ [name of local jurisdiction].

Dated: _____

_____
Signature of the Clearing Agency

_____
Print name and title of signing officer of the Clearing Agency

AGENT
CONSENT TO ACT AS AGENT FOR SERVICE

I, _____ [name of Agent in full; if a corporation, full corporate name] of _____ [business address], hereby accept the appointment as agent for service of process of _____ [insert name of Clearing Agency] and hereby consent to act as agent for service pursuant to the terms of the appointment executed by _____ [insert name of Clearing Agency] on _____ [insert date].

Dated: _____

_____
Signature of Agent

_____
Print name of person signing and, if Agent is not an individual, the title of the person

FORM 24-102F2
CESSATION OF OPERATIONS REPORT FOR CLEARING AGENCY

1. Identification:

   A. Full name of the recognized or exempted clearing agency:

   B. Name(s) under which business is conducted, if different from item 1A:

2. Date clearing agency proposes to cease carrying on business as a clearing agency:

3. If cessation of business was involuntary, date clearing agency has ceased to carry on business as a clearing agency:

Exhibits

File all exhibits with the Cessation of Operations Report. For each exhibit, include the name of the clearing agency, the date of filing of the exhibit and the date as of which the information is accurate (if different from the date of the filing). If any exhibit required is inapplicable, a statement to that effect must be provided instead of the exhibit.

Exhibit A

The reasons for the clearing agency ceasing to carry on business as a clearing agency.

Exhibit B

A list of all participants in Canada during the last 30 days prior to ceasing business as a clearing agency.

Exhibit C

A description of the alternative arrangements available to participants in respect of the services offered by the clearing agency immediately before the cessation of business as a clearing agency.

Exhibit D

A description of all links the clearing agency had immediately before the cessation of business as a clearing agency with other clearing agencies or trade repositories.

CERTIFICATE OF CLEARING AGENCY

The undersigned certifies that the information given in this report is true and correct.

DATED at _____ this _____ day of _____ 20_____

_____
(Name of clearing agency)

_____
(Name of director, officer or partner – please type or print)

_____
(Signature of director, officer or partner)

_____
(Official capacity – please type or print)

COMPANION POLICY 24-102CP
TO
NATIONAL INSTRUMENT 24-102
CLEARING AGENCY REQUIREMENTS

TABLE OF CONTENTS

PART 1 – GENERAL COMMENTS

PART 2 – CLEARING AGENCY RECOGNITION OR EXEMPTION FROM RECOGNITION

PART 3 – PFMI PRINCIPLES APPLICABLE TO RECOGNIZED CLEARING AGENCIES

PART 4 – OTHER REQUIREMENTS OF RECOGNIZED CLEARING AGENCIES

Division 1 – Governance

Division 2 – Default management

Division 3 – Operational risk

Division 4 – Participation requirements

PART 5 – BOOKS AND RECORDS AND LEGAL ENTITY IDENTIFIER

PART 6 – EXEMPTIONS

ANNEX I JOINT SUPPLEMENTARY GUIDANCE DEVELOPED BY THE BANK OF CANADA AND CANADIAN SECURITIES ADMINISTRATORS

PFMI Principle 2: *Governance*

Box 2.1: Joint Supplementary Guidance – Financial Stability and Other Public Interest Considerations

Box 2.2: Joint Supplementary Guidance – Vertically and Horizontally Integrated FMIs

PFMI Principle 5: *Collateral*

Box 5.1: Joint Supplementary Guidance – Collateral

PFMI Principle 7: *Liquidity risk*

Box 7.1: Joint Supplementary Guidance – Liquidity Risk

PFMI Principle 15: *General business risk*

Box 15.1: Joint Supplementary Guidance – General Business Risk

PFMI Principle: *Custody and investment risks*

Box 16.1: Joint Supplementary Guidance – Custody and Investment Risks

PFMI Principle: *Disclosure of rules, key procedures, and market data*

Box 23.1: Joint Supplementary Guidance – Disclosure of Rules, Key Procedures and Market Data

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COMPANION POLICY 24-102CP
TO
NATIONAL INSTRUMENT 24-102
CLEARING AGENCY REQUIREMENTS

PART I
GENERAL COMMENTS

Introduction

1.1 (1) This Companion Policy (CP) sets out how the Canadian Securities Administrators (the CSA or we) interpret or apply provisions of National Instrument 24-102 *Clearing Agency Requirements* (the Instrument) and related securities legislation.

(2) Except for this Part 1 of the CP, section 3.2 and 3.3 of Part 3 of this CP, and the *text boxes* in Annex I to this CP, the numbering of Parts, sections and subsections in this CP generally corresponds to the numbering in the Instrument. Any general guidance or introductory comments for a Part appears immediately after the Part's name. Specific guidance on a section or subsection in the Instrument follows any general guidance. If there is no guidance for a Part, section or subsection, the numbering in this CP will skip to the next provision that does have guidance.

(3) Unless otherwise stated, any reference in this CP to a Part, section, subsection, paragraph or defined term is a reference to the corresponding Part, section, subsection, paragraph or defined term of the Instrument. The CP also makes references to certain paragraphs in the April 2012 report *Principles for financial market infrastructures* (the PFMIs or PFMI Report, as the context requires) and the PFMI Principles set out therein. A reference to a PFMI Principle may include a reference to an applicable key consideration (see definition of "PFMI Principle" in section 1.1).

Background and overview

1.2 (1) Securities legislation in certain jurisdictions of Canada requires an entity seeking to carry on business as a clearing agency in the jurisdiction to be (i) recognized by the securities regulatory authority in that jurisdiction, or (ii) exempted from the recognition requirement.[34] Accordingly, Part 2 sets out certain requirements in connection with the application process for recognition as a clearing agency or exemption from the recognition requirement. Guidance on the CSA's regulatory approach to such an application is set out in this CP.

(2) Parts 3 and 4 set out on-going requirements applicable to a recognized clearing agency. Part 3 adopts the PFMI Principles generally but does restrict their application only to a clearing agency that operates as a central counterparty (CCP), securities settlement system (SSS) or central securities depository (CSD), as relevant. Part 4 applies to a clearing agency whether or not it operates as a CCP, SSS or CSD. The PFMI Principles were developed jointly by the Committee on Payments and Market Infrastructures (CPMI)[35] and the International Organization of Securities Commissions (IOSCO).[36] The PFMI Principles harmonize and strengthen previous international standards for financial market infrastructures (FMIs).[37]

(3) Annex I to this CP includes supplementary guidance in *text boxes* that applies to recognized domestic clearing agencies that are also overseen by the Bank of Canada (BOC). The supplementary guidance (Joint Supplementary Guidance) was prepared jointly by the CSA and BOC to provide additional clarity on certain aspects of the PFMI Principles within the Canadian context.

Definitions, interpretation and application

1.3 (1) Unless defined in the Instrument or this CP, defined terms used in the Instrument and this CP have the meaning given to them in the securities legislation of each jurisdiction or in National Instrument 14-101 *Definitions*.

(2) The terms "clearing agency" and "recognized clearing agency" are generally defined in securities legislation. For the purposes of the Instrument, a clearing agency includes, in Quebec, a clearing house, central securities depository and settlement system within the meaning of the Québec *Securities Act* and a clearing house and settlement system within the meaning of the Québec *Derivatives Act.* See section 1.4. The CSA notes that, while Part 3 applies only to a recognized clearing agency that operates as a CCP, CSD or SSS, the term "clearing agency" may incorporate certain other centralized post-trade

[34] The entity is prohibited from carrying on business as a clearing agency unless recognized or exempted.

[35] Prior to September 1, 2014, CPMI was known as the Committee on Payment and Settlement Systems (CPSS).

[36] See the CPMI-IOSCO *Principles for Financial Market Infrastructures* Report, published in April 2012, available on the Bank for International Settlements' website (www.bis.org) and the IOSCO website (www.iosco.org).

[37] See (i) 2001 CPMI report *Core principles for systemically important payment systems*, (ii) 2001 CPMI-IOSCO report *Recommendations for securities settlement systems* (together with the 2002 CPMI-IOSCO report *Assessment methodology for Recommendations for securities settlement systems*); and (iii) 2004 CPMI-IOSCO report *Recommendations for central counterparties*. All of these reports are available on the Bank for International Settlements' website (www.bis.org). The CPMI-IOSCO reports are also available on IOSCO website (www.iosco.org).

functions that are not necessarily limited to those of a CCP, CSD or SSS, e.g., an entity that provides centralized facilities for comparing data respecting the terms of settlement of a trade or transaction may be considered a clearing agency, but would not be considered a CCP, CSD or SSS. Except in Québec, such an entity would be required to apply either for recognition as a clearing agency or an exemption from the requirement to be recognized.[38] The CSA considers that a recognized clearing agency, which is not a CCP, CSD or SSS, should not be subject to the application of Part 3. Such a clearing agency is, however, subject to provisions in Part 2 and all of Parts 4 and 5.

(3) A clearing agency may serve either or both the securities and derivatives markets. A clearing agency serving the securities markets can be a CCP, CSD or SSS. A clearing agency serving the derivatives markets is typically only a CCP.

(4) In this CP, FMI means a financial market infrastructure, which the PFMI Report describes as follows: payment systems, CSDs, SSSs, CCPs and trade repositories.

PART 2
CLEARING AGENCY RECOGNITION OR EXEMPTION FROM RECOGNITION

Recognition and exemption

2.0 (1) An entity seeking to carry on business as a clearing agency in certain jurisdictions in Canada is required under the securities legislation of such jurisdictions to apply for recognition or an exemption from the recognition requirement. For greater clarity, a foreign-based clearing agency that provides, or will provide, its services or facilities to a person or company resident in a jurisdiction would be considered to be carrying on business in that jurisdiction.

– *Recognition of a clearing agency*

(2) The CSA takes the view that a clearing agency that is systemically important to a jurisdiction's capital markets, or that is not subject to comparable regulation by another regulatory body, will generally be recognized by a securities regulatory authority.[39] A securities regulatory authority may consider the systemic importance of a clearing agency to its capital markets based on the following list of guiding factors: value and volume of transactions processed, cleared and settled by the clearing agency;[40] risk exposures (particularly credit and liquidity) of the clearing agency to its participants; complexity of the clearing agency;[41] and centrality of the clearing agency with respect to its role in the market, including its substitutability, relationships, interdependencies and interactions.[42] The list of guiding factors is non-exhaustive, and no single factor described above will be determinative in an assessment of systemic importance. A securities regulatory authority retains the ability to consider additional quantitative and qualitative factors as may be relevant and appropriate.[43]

(3) Because of the approach described in subsection 2.0(2) of this CP, a securities regulatory authority may require a foreign-based clearing agency to be recognized if the clearing agency's proposed business activities in the local jurisdiction are systemically important to the jurisdiction's capital markets, even if it is already subject to comparable regulation in its home jurisdiction. In such circumstances, the recognition decision would focus on key areas that pose material risks to the jurisdiction's market and rely, where appropriate, on the current regulatory requirements and processes to which the entity is already subject in its home jurisdiction. Terms and conditions of a recognition decision that require a foreign clearing agency to report information to a Canadian securities regulatory authority may vary among foreign clearing agencies. Among other factors, they will depend on whether Canadian securities regulatory authorities have entered into an agreement or memorandum of understanding with the home regulator for sharing information and cooperation.

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38 In Québec, an entity that provides such centralized facilities for comparing data would be required to apply either for recognition as a matching service utility or for an exemption from the recognition requirement, in application of the *Securities Act* or the *Derivatives Act*.

39 We would consider comparable regulation by another regulatory body to be regulation that generally results in similar outcomes in substance to the requirements of Part 3 and 4.

40 We would consider, for example, the current aggregate monetary values and volumes of such transactions, as well as the entity's potential for growth.

41 We would look, for example, to the nature and complexity of the clearing agency, taking into account an analysis of the various products it processes, clears or settles.

42 We would consider, for example, the centrality or importance of the clearing agency to the particular market or markets it serves, based on the degree to which it critically supports, or that its failure or disruption would affect, such markets or the entire Canadian financial infrastructure.

43 Additional factors may be based on the characteristics of the clearing agency under review, such as the nature of its operations, its corporate structure, or its business model.

– ***Exemption from recognition***

(4) Depending on the circumstances, a clearing agency may be granted an exemption from recognition pursuant to securities legislation and subject to appropriate terms and conditions, where it is not considered systemically important or where it does not otherwise pose significant risk to the capital markets. For example, such an approach may be considered for an entity that provides limited services or facilities, thereby not warranting full regulation, such as a clearing agency that does not perform the functions of a CCP, CSD or SSS. However, in such cases, terms and conditions may be imposed. In addition, a foreign-based clearing agency that is already subject to a comparable regulatory regime in its home jurisdiction may be granted an exemption from the recognition requirement as full regulation may be duplicative and inefficient when imposed in addition to the regulation of the home jurisdiction. The exemption may be subject to certain terms and conditions, including reporting requirements and prior notification of certain material changes to information provided to the securities regulatory authority.

Application and initial filing of information

2.1 The application process for both recognition and exemption from recognition as a clearing agency is similar. The entity that applies will typically be the entity that operates the facility or performs the functions of a clearing agency. The application for recognition or exemption will require completion of appropriate documentation. This will include the items listed in subsection 2.1(1). Together, the application materials should present a detailed description of the history, regulatory structure, and business operations of the clearing agency. A clearing agency that operates as a CCP, CSD or SSS will need to describe how it meets or will meet the requirements of Parts 3 and 4. An applicant based in a foreign jurisdiction should also provide a detailed description of the regulatory regime of its home jurisdiction and the requirements imposed on the clearing agency, including how such requirements are similar to the requirements in Parts 3 and 4.

Where specific information items of the PFMI Disclosure Framework Document are not relevant to an applicant because of the nature or scope of its clearing agency activities, its structure, the products it clears or settles, or its regulatory environment, the application should explain in reasonable detail why the information items are not relevant.

The application filed by an applicant will generally be published for public comment for a 30-day period. Other materials filed with the application, which the applicant wishes to maintain confidential, will generally be kept confidential in accordance with securities and privacy legislation. However, the clearing agency will be required to publicly disclose its PFMI Disclosure Framework Document. See PFMI Principle 23, key consideration 5.

Significant changes, fee changes, and other changes in information

2.2 Section 2.2 is subject to the application provisions of subsections 1.5(3) and (4). For example, where the terms and conditions of a recognition decision made by a securities regulatory authority require a recognized clearing agency to obtain the approval of the authority before implementing a new fee for a service, the process to seek such approval set forth in the terms and conditions will apply instead of the prior notification requirement in subsection 2.2(4).

(2) The written notice should provide a reasonably detailed description of the significant change (as defined in subsection 2.2(1)) and the expected date of the implementation of the change. It should enclose or attach updated relevant documentation, including clean and blacklined versions of the documentation that show how the significant change will be implemented. If the notice is being filed by a foreign-based clearing agency, the notice should also describe the approval process or other involvement by the primary or home-jurisdiction regulator for implementing the significant change. The clearing agency is required to file concurrently with the notice any changes required to be made to the clearing agency's PFMI Disclosure Framework Document as a result of implementing the significant change, in accordance with subsection 2.2(3).

Ceasing to carry on business

2.3 A recognized or exempt clearing agency that ceases to carry on business in a local jurisdiction as a clearing agency, either voluntarily or involuntarily, must file a completed Form 24-102F2 *Cessation of Operations Report for Clearing Agency* within the appropriate timelines. In certain jurisdictions, the clearing agency intending to cease carrying on business must also make an application to voluntarily surrender its recognition to the securities regulatory authority pursuant to securities legislation. The securities regulatory authority may accept the voluntary surrender subject to terms and conditions.[44]

[44] See, for example, section 21.4 of the *Securities Act* (Ontario).

PART 3
PFMI PRINCIPLES APPLICABLE TO RECOGNIZED CLEARING AGENCIES

Introduction

3.0 (1) Section 3.1 adopts the PFMI Principles generally but excludes the application of specific PFMI Principles for certain types of clearing agencies. We have adopted only those PFMI Principles that are relevant to clearing agencies operating as a CCP, CSD or SSS.[45]

(2) Part 3, together with the PFMI Principles, is intended to be consistent with a flexible and principles-based approach to regulation. In this regard, Part 3 anticipates that a clearing agency's rules, procedures, policies and operations will need to evolve over time so that it can adequately respond to changes in technology, legal requirements, the needs of its participants and their customers, trading volumes, trading practices, linkages between financial markets, and the financial instruments traded in the markets that a clearing agency serves.

PFMI Principles

3.1 The definition of PFMI Principles in the Instrument includes the applicable key considerations for each principle. Annex E to the PFMI Report provides additional guidance on how each key consideration will apply to the specified types of clearing agencies. In interpreting and implementing the PFMI Principles, regard is to be given to the explanatory notes in the PFMI Report, as appropriate, unless otherwise indicated in section 3.1 or this Part 3 of the CP.[46] As discussed in subsection 1.2(3) of this CP, the CSA and BOC have together developed Joint Supplementary Guidance to provide additional clarity on certain aspects of some PFMI Principles within the Canadian context. The Joint Supplementary Guidance is directed at recognized domestic clearing agencies that are also overseen by the BOC. The Joint Supplementary Guidance is included in separate *text boxes* in Annex I to this CP under the relevant headings of the PFMI Principles. Except as otherwise indicated in this Part 3 of the CP, other recognized domestic clearing agencies should assess the applicability of the Joint Supplementary Guidance to their respective entity as well.

PFMI Principle 5: Collateral

3.2 Notwithstanding section 3.1 of the CP and the Joint Supplementary Guidance relating to PFMI Principle 5: *Collateral* (see Box 5.1 in Annex I to this CP), we are of the view that letters of credit may be permitted as collateral by a recognized domestic clearing agency operating as a CCP serving derivatives markets that is not also overseen by the BOC, provided that the collateral and the clearing agency's collateral policies and procedures otherwise meet the requirements of PFMI Principle 5: *Collateral*. However, the recognized clearing agency must first obtain regulatory approval of its rules and procedures that govern the use of letters of credit as collateral before accepting letters of credit.

PFMI Principle 14: Segregation and portability for CCPs serving cash markets

3.3 PFMI Principle 14: *Segregation and portability* requires, pursuant to section 3.1, that a CCP have rules and procedures that enable the segregation and portability[47] of positions and related collateral of a CCP participant's customers, particularly to protect the customers from the default or insolvency of the participant. The explanatory notes in the PFMI Report offer an "alternate approach" to meeting PFMI Principle 14. The report notes that, in certain jurisdictions, cash market CCPs operate in legal regimes that facilitate segregation and portability to achieve the protection of customer assets by alternate means that offer the same degree of protection as the approach in PFMI Principle 14.[48] The features of the alternate approach are described in the PFMI Report.[49]

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45 PFMI Principles that are relevant to payment systems and trade repositories, but not CCPs, SSSs and CSDs, are not adopted in Part 3.

46 For example, the Instrument uses specialized terminology related to the clearing and settlement area. Not all such terminology is defined in the Instrument, but instead may be defined or explained in the PFMI Report. Regard should be given to the PFMI Report in understanding such terminology, as appropriate, including Annex H: *Glossary*.

47 Portability refers to the operational aspects of the transfer of contractual positions, funds, or securities from one party to another party. See paragraph 3.14.3 of the PFMI Report.

48 See paragraph 3.14.6 of the PFMI Report, at p. 83.

49 Features of such regimes are that, if a participant fails, (a) the customer positions can be identified in a timely manner, (b) customers will be protected by an investor protection scheme designed to move customer accounts from the failed or failing participant to another participant in a timely manner, and (c) customer assets can be restored. As an example, the PFMIs suggest that domestic law may subject participants to explicit and comprehensive financial responsibility and customer protection requirements that obligate participants to make frequent determinations (for example, daily) that they maintain possession and control of all customers' fully paid and excess margin securities and to segregate their proprietary activities from those of their customers. Under these types of regimes, pending securities purchases do not belong to the customer; thus there is no customer trade or position entered into the CCP. As a result, participants who provide collateral to the CCP do not identify whether the collateral is provided on behalf of their customers regardless of whether they are acting on a principal or agent basis, and the CCP is not able to identify positions or the assets of its participants' customers.

– *Customers of IIROC dealer members:*

Currently, most participants of domestic cash market CCPs that clear for customers are investment dealers.[50] They are required to be members of the Investment Industry Regulatory Organization of Canada (IIROC)[51] and to contribute to the Canadian Investor Protection Fund (CIPF).[52] The CSA is of the view that the customer asset protection regime applicable to investment dealers (IIROC-CIPF regime) is an appropriate alternative framework for customers of investment dealers that are direct participants of a cash-market CCP. The IIROC-CIPF regime meets the criteria for the alternate approach for CCPs serving certain domestic cash markets because:

- IIROC's requirements governing, among other things, an investment dealer's books and records, capital adequacy, internal controls, client account margining, and segregation of client securities and cash help ensure that customer positions and collateral can be identified timely,
- customers of an investment dealer are protected by CIPF, and
- through a combination of IIROC's member rules and oversight powers, CIPF's role in the administration of the bankruptcy of a dealer, and the overarching policy objectives of Part XII of the federal *Bankruptcy and Insolvency Act* (BIA) (discussed below), customer accounts can be moved from a failing dealer to another dealer in a timely manner and customers' assets can be restored.

Part XII of the BIA sets out a special bankruptcy regime for administering the insolvency of a securities firm. The regime generally provides for all cash and securities of a bankrupt securities firm, whether held for its own account and for its customers, to vest in the appointed trustee in bankruptcy. The trustee, in turn, is directed to pool such assets into a "customer pool fund" for the benefit of the customers, which are entitled to a pro rata share of the customer pool fund according to their respective "net equity" claims as a priority claim before the general creditors are paid. To the extent there is a shortfall in customer recovery from the customer pool fund and any remaining assets in the insolvent estate, the assets are allocated among the customers on a pro rata basis. CIPF, which works in conjunction with IIROC and the bankruptcy trustee,[53] provides protection to eligible customers for losses up to $1 million per account.[54]

– *Customers of other types of participants:*

A recognized clearing agency operating as a cash market CCP for participants that are not IIROC investment dealers will need to have segregation and portability arrangements at the CCP level that meet PFMI Principle 14. Where the clearing agency is proposing to rely on an alternate approach for the purposes of protecting the customers of such participants, the clearing agency will need to demonstrate how the applicable legal or regulatory framework in which it operates achieves the same degree of protection and efficiency for such customers that would otherwise be achieved by segregation and portability arrangements at the CCP level described in PFMI Principle 14. See the PFMI Report, at paragraph 3.14.6.

PART 4
OTHER REQUIREMENTS OF RECOGNIZED CLEARING AGENCIES

Introduction

4.0 As discussed in section 1.2(2) of this CP, the provisions of Part 4 are in addition to the requirements of Part 3, and apply to a clearing agency whether or not it operates as a CCP, SSS or CSD.

[50] Investment dealers are firms registered in the category of "investment dealer" under provincial securities legislation. Investment dealers are required to be members of IIROC. See section 9.1 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

[51] IIROC is the national self-regulatory organization (SRO) which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. It is a recognized SRO in all 10 provinces in Canada and is subject to regulation and oversight by the CSA.

[52] CIPF is an investor compensation protection fund that is sponsored by IIROC and approved by the CSA.

[53] CIPF is a "customer compensation body" for the purposes of Part XII of the BIA. Where the accounts of a securities firm are protected (in whole or in part) by CIPF, the trustee in bankruptcy is required to consult with CIPF on the administration of the bankruptcy, and CIPF may designate an inspector to act on its behalf. See section 264 of the BIA.

[54] The losses must be in respect of a claim for the failure of the dealer to return or account for securities, cash balances, commodities, futures contracts, segregated insurance funds or other property received, acquired or held by the dealer in an account for the customer.

Division 1 – Governance:

Board of directors

4.1 (4) Consistent with the explanatory notes in the PFMI Report (see paragraph 3.2.10), we are of the view that the following individuals have a relationship with a clearing agency that would reasonably be expected to interfere with the exercise of the individual's independent judgment:

(a) an individual who is, or has been within the last year, an employee or executive officer of the clearing agency or any of its affiliated entities;

(b) an individual whose immediate family member is, or has been within the last year, an executive officer of the clearing agency or any of its affiliated entities;

(c) an individual who beneficially owns, directly or indirectly, voting securities carrying more than ten per cent of the voting rights attached to all voting securities of the clearing agency or any of its affiliated entities for the time being outstanding;

(d) an individual whose immediate family member beneficially owns, directly or indirectly, voting securities carrying more than ten per cent of the voting rights attached to all voting securities of the clearing agency or any of its affiliated entities for the time being outstanding;

(e) an individual who is, or has been within the last year, an executive officer of a person or company that beneficially owns, directly or indirectly, voting securities carrying more than ten per cent of the voting rights attached to all voting securities of the clearing agency or any of its affiliated entities for the time being outstanding; and

(f) an individual who accepts or who received within the last year, directly or indirectly, any audit, consulting, advisory or other compensatory fee from the clearing agency or any of its affiliated entities, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee.

For the purposes of paragraph (f) above, compensatory fees would not normally include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the clearing agency if the compensation is not contingent in any way on continued service. Also, the indirect acceptance by an individual of any audit, consulting, advisory or other compensatory fee includes acceptance of a fee by (a) an individual's immediate family member; or (b) an entity in which such individual is a partner, a member, an officer such as a managing director occupying a comparable position or an executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the clearing agency or any of its affiliated entities.

In addition, an individual appointed to the board of directors or board committee of the clearing agency or any of its affiliated entities or of a person or company referred to in paragraph (e) above would not be considered to have a material relationship with the clearing agency solely because the individual acts, or has previously acted, as a chair or vice-chair of the board of directors or a board committee.

Documented procedures regarding risk spill-overs

4.2 For guidance on this provision, see the Joint Supplementary Guidance in Box 2.2 in Annex I of this CP.

Chief Risk Officer (CRO) and Chief Compliance Officer (CCO)

4.3 Section 4.3 is consistent with PFMI Principle 2, key consideration 5, which requires a clearing agency to have an experienced management with a mix of skills and the integrity necessary to discharge its operations and risk management responsibilities.

(3) The reference to "harm to the broader financial system" in subparagraph 4.3(3)(c)(ii) may be in relation to the domestic or international financial system. The CSA is of the view that the role of a CCO may, in certain circumstances, be performed by the Chief Legal Officer or General Counsel of the clearing agency, where the individual has sufficient time to properly carry out his or her duties and, provided that there are appropriate safeguards in place to avoid conflicts of interest.

Board or advisory committees

4.4 Section 4.4 is intended to reinforce the clearing agency's obligations to meet the PFMI Principles, particularly PFMI Principles 2 and 3. The CSA is of the view that the mandates of the committees should, at a minimum, include the following:

(a) providing advice and recommendations to the board of directors to assist it in fulfilling its risk management responsibilities, including reviewing and assessing the clearing agency's risk management policies and procedures, the adequacy of the implementation of appropriate procedures to mitigate and manage such risks, and the clearing agency's participation standards and collateral requirements;

(b) ensuring adequate processes and controls are in place over the models used to quantify, aggregate, and manage the clearing agency's risks;

(c) monitoring the financial performance of the clearing agency and providing financial management oversight and direction to the business and affairs of the clearing agency;

(d) implementing policies and processes to identify, address, and manage potential conflicts of interest of board members; and

(e) regularly reviewing the board of directors' and senior management's performance and the performance of each individual member.

Section 4.4 is a minimum requirement. Consistent with the explanatory notes in the PFMI Principles (see paragraph 3.2.9), a recognized clearing agency should also consider forming other types of board committees, such as a compensation committee. All committees should have clearly assigned responsibilities and procedures. The clearing agency's internal audit function should have sufficient resources and independence from management to provide, among other activities, a rigorous and independent assessment of the effectiveness of its risk-management and control processes. See section 4.1 for the concept of independence. A board will typically establish an audit committee to oversee the internal audit function. In addition to reporting to senior management, the audit function should have regular access to the board through an additional reporting line.

Division 2 – Default management:

Use of own capital

4.5 The CSA is of the view that a CCP's own capital contribution should be used in the default waterfall, immediately after a defaulting participant's contributions to margin and default fund resources have been exhausted, and prior to non-defaulting participants' contributions. Such equity should be significant enough to attract senior management's attention, and separately retained and not form part of the CCP's resources for other purposes, such as to cover general business risk.

Division 3 – Operational risk:

4.6 to 4.10 Sections 4.6 to 4.10 complement PFMI Principle 17, which requires a clearing agency to identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. PFMI Principle 17 further requires that systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity, and business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

Systems requirements

4.6 (a) The intent of these provisions is to ensure that controls are implemented to support information technology planning, acquisition, development and maintenance, computer operations, information systems support, and security. Recognized guides as to what constitutes adequate information technology controls include 'Information Technology Control Guidelines' from the Canadian Institute of Chartered Accountants (CICA) and 'COBIT' from the IT Governance Institute.

(b) Capacity management requires that the clearing agency monitor, review, and test (including stress test) the actual capacity and performance of the system on an ongoing basis. Accordingly, under subsection 4.6(b), the clearing agency is required to meet certain standards for its estimates and for testing. These standards are consistent with prudent business practice. The activities and tests required in this subsection are to be carried out at least once a year. In practice, continuing changes in technology, risk management requirements and competitive pressures will often result in these activities being carried out or tested more frequently.

(c) A failure, malfunction or delay or other incident is considered to be "material" if the clearing agency would, in the normal course of operations, escalate the matter to or inform its senior management ultimately accountable for technology. It is also expected that, as part of this notification, the clearing agency will provide updates on the status of the failure and the resumption of service. Further, the clearing agency should have comprehensive and well-documented procedures in place to record, report, analyze, and resolve all operational incidents. In this regard, the clearing agency should undertake a "post-incident" review to identify the causes and any required improvement to the normal operations or business continuity arrangements. Such reviews should, where relevant, include the clearing agency's participants. The results of such internal reviews are required to be communicated to the securities regulatory authority as soon as practicable. Subsection 4.6(c) also refers to a material security breach. A material security breach or systems intrusion is considered to be any unauthorized entry into any of the systems that support the functions of the clearing agency or any system that shares resources with one or more of these systems. Virtually any security breach would be considered material and thus reportable to the securities regulatory authority. The onus would be on the clearing agency to document the reasons for any security breach it did not consider material.

Systems reviews

4.7 (1) A qualified party is a person or company or a group of persons or companies with relevant experience in both information technology and in the evaluation of related internal systems or controls in a complex information technology environment. Qualified persons may include external auditors or third party information system consultants, as well as employees of the clearing agency or an affiliated entity of the clearing agency, but may not be persons responsible for the development or operation of the systems or capabilities being tested. Before engaging a qualified party, a clearing agency should discuss its choice with the regulator or, in Québec, the securities regulatory authority.

Clearing agency technology requirements and testing facilities

4.8 (1) The technology requirements required to be disclosed under subsection 4.8(1) do not include detailed proprietary information.

(5) We expect the amended technology requirements to be disclosed as soon as practicable, either while the changes are being made or immediately after.

Testing of business continuity plans

4.9 Business continuity management is a key component of a clearing agency's operational risk-management framework. A recognized clearing agency's business continuity plan and its associated arrangements should be subject to frequent review and testing. At a minimum, under section 4.9, such tests must be conducted annually. Tests should address various scenarios that simulate wide-scale disasters and inter-site switchovers. The clearing agency's employees should be thoroughly trained to execute the business continuity plan and participants, critical service providers, and linked clearing agencies should be regularly involved in the testing and be provided with a general summary of the testing results. The CSA expects that the clearing agency will also facilitate and participate in industry-wide testing of the business continuity plan (domestically-based recognized clearing agencies are required to participate in all industry-wide business continuity tests, as determined by a regulation services provider, regulator, or in Québec, the securities regulatory authority, pursuant to National Instrument 21-101 *Marketplace Operation*). The clearing agency should make appropriate adjustments to its business continuity plan and associated arrangements based on the results of the testing exercises.

Outsourcing

4.10 Where a recognized clearing agency relies upon or outsources some of its operations to a service provider, it should generally ensure that those operations meet the same requirements they would need to meet if they were provided internally. Under section 4.10, the clearing agency must meet various requirements in respect of the outsourcing of critical services or systems to a service provider. These requirements apply regardless of whether the outsourcing arrangements are with third-party service providers, or with affiliated entities of the clearing agency.

Generally, the clearing agency is required to establish, implement, maintain and enforce policies and procedures to evaluate and approve outsourcing agreements to critical service providers. Such policies and procedures should include assessing the suitability of potential service providers and the ability of the clearing agency to continue to comply with securities legislation in the event of the service provider's bankruptcy, insolvency or termination of business. The clearing agency is also required to monitor and evaluate the on-going performance and compliance of the service provider to which they outsourced critical services, systems or facilities. Accordingly, the clearing agency should define key performance indicators that will measure the service level. Further, the clearing agency should have robust arrangements for the substitution of such providers, timely access to all necessary information, and the proper controls and monitoring tools.

Under section 4.10, a contractual relationship should be in place between the clearing agency and the critical service provider allowing it and relevant authorities to have full access to necessary information. The contract should ensure that the clearing

agency's approval is mandatory before the critical service provider can itself outsource material elements of the service provided to the clearing agency, and that in the event of such an arrangement, full access to the necessary information is preserved. Clear lines of communication should be established between the outsourcing clearing agency and the critical service provider to facilitate the flow of functions and information between parties in both ordinary and exceptional circumstances.

Where the clearing agency outsources operations to critical service providers, it should disclose the nature and scope of this dependency to its participants. It should also identify the risks from its outsourcing and take appropriate actions to manage these dependencies through appropriate contractual and organisational arrangements. The clearing agency should inform the securities regulatory authority about any such dependencies and the performance of these critical service providers. To that end, the clearing agency can contractually provide for direct contacts between the critical service provider and the securities regulatory authority, contractually ensure that the securities regulatory authority can obtain specific reports from the critical service provider, or the clearing agency may provide full information to the securities regulatory authority.

Division 4 – Participation requirements:

Access requirements and due process

4.11 Section 4.11 complements PFMI Principle 18, which requires a clearing agency to have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

(1)(b) We consider an indirect participant to be an entity that relies on the services provided by other entities (participants) to use a clearing agency's clearing and settlement facilities. As defined in the Instrument, a participant (sometimes also referred to as a "direct participant") is an entity that has entered into an agreement with a clearing agency to access the services of the clearing agency and is bound by the clearing agency's rules and procedures. While indirect participants are generally not bound by the rules of the clearing agency, their transactions are cleared and settled through the clearing agency in accordance with the clearing agency's rules and procedures. The concept of indirect participant is discussed in the PFMI Report, at paragraph 3.19.1.

(1)(d) We are of the view that a requirement on participants of a clearing agency serving the derivatives markets to use a trade repository that is an affiliated entity to report derivatives trades would be unreasonable.

PART 5
BOOKS AND RECORDS AND LEGAL ENTITY IDENTIFIER

Legal Entity Identifiers

5.2 (1) The Global Legal Entity Identifier System defined in subsection 5.2(1) and referred to in subsections 5.2(2) and 5.2(3) is a G20 endorsed system[55] that will serve as a public-good utility responsible for overseeing the issuance of legal entity identifiers (LEIs) globally to counterparties that enter into transactions in order to uniquely identify parties to transactions. It is currently being designed and implemented under the direction of the LEI Regulatory Oversight Committee (ROC), a governance body endorsed by the G20.

(3) If the Global LEI System is not available at the time a clearing agency is required to fulfill their recordkeeping or reporting requirements under securities legislation, they must use a substitute LEI. The substitute LEI must be in accordance with the standards established by the LEI ROC for pre-LEI identifiers. At the time the Global LEI System is operational, a clearing agency or its affiliated entities must cease using their substitute LEI and commence using their LEI. It is conceivable that the two identifiers could be identical.

PART 6
EXEMPTIONS

Exemptions

6.1 As Part 3 adopts a principles-based approach to incorporating the PFMI Principles into the Instrument, the CSA has sought to minimize any substantive duplication or material inefficiency due to cross-border regulation. Where a recognized foreign-based clearing agency does face some conflict or inconsistency between the requirements of sections 2.2 and 2.5 and Part 4 and the requirements of the regulatory regime in its home jurisdiction, the clearing agency is expected to comply with the Instrument. However, where such a conflict or inconsistency causes a hardship for the clearing agency, and provided that the entity is subject to requirements in its home jurisdiction resulting in similar outcomes in substance to the requirements of sections 2.2 and 2.5 and Part 4, an exemption from a provision of the Instrument may be considered by a securities regulatory authority. The exemption may be subject to appropriate terms or conditions.

[55] See http://www.financialstabilityboard.org/list/fsb_publications/tid_156/index.htm for more information.

Annex I
to Companion Policy 24-102CP

Joint Supplementary Guidance
Developed by the Bank of Canada and Canadian Securities Administrators

– ***PFMI Principle 2: Governance***

Box 2.1:
Joint Supplementary Guidance –
Financial Stability and Other Public Interest Considerations

Context

The PFMIs define governance as the set of relationships between an FMI's owners, board of directors (or equivalent), management, and other relevant parties, including participants, authorities, and other stakeholders (such as participants' customers, other interdependent FMIs, and the broader market). Governance provides the processes through which an organization sets its objectives, determines the means for achieving those objectives, and monitors performance against those objectives. This note provides supplementary regulatory guidance for Canadian FMIs on their governance arrangements as it relates to supporting relevant public interest considerations.

Public interest considerations in the context of the PFMIs

The PFMIs indicate that FMIs should "explicitly support financial stability and other relevant public interests." However, there may be circumstances where providing explicit support of relevant public interests conflict with other FMI objectives and therefore require appropriate prioritization and balancing. For example, addressing the potential trade-offs between protecting the participants and the FMI while ensuring the financial stability interests are upheld.

Guidance within the PFMIs

The following text has been extracted directly from the PFMIs. The pertinent information is in bold italics.

PFMI paragraph 3.2.2:

> ***Given the importance of FMIs and the fact that their decisions can have widespread impact, affecting multiple financial institutions, markets, and jurisdictions, it is essential for each FMI to place a high priority on the safety and efficiency of its operations and explicitly support financial stability and other relevant public interests. Supporting the public interest is a broad concept that includes, for example, fostering fair and efficient markets.*** *For example, in certain over the counter derivatives markets, industry standards and market protocols have been developed to increase certainty, transparency, and stability in the market. If a CCP in such markets were to diverge from these practices, it could, in some cases, undermine the market's efforts to develop common processes to help reduce uncertainty. An FMI's governance arrangements should also include appropriate consideration of the interests of participants, participants' customers, relevant authorities, and other stakeholders. (...) For all types of FMIs, governance arrangements should provide for fair and open access (see Principle 18 on access and participation requirements) and for effective implementation of recovery or wind-down plans, or resolution.*

PFMI paragraph 3.2.8:

> ***An FMI's board has multiple roles and responsibilities that should be clearly specified. These roles and responsibilities should include*** *(a) establishing clear strategic aims for the entity; (b) ensuring effective monitoring of senior management (including selecting its senior managers, setting their objectives, evaluating their performance, and, where appropriate, removing them); (c) establishing appropriate compensation policies (which should be consistent with best practices and based on long-term achievements, in particular, the safety and efficiency of the FMI); (d) establishing and overseeing the risk-management function and material risk decisions; (e) overseeing internal control functions (including ensuring independence and adequate resources); (f) ensuring compliance with all supervisory and oversight requirements;* ***(g) ensuring consideration of financial stability and other relevant public interests****; and (h) providing accountability to the owners, participants, and other relevant stakeholders.*

The CPMI-IOSCO PFMI Disclosure framework and Assessment methodology provides questions to guide the assessment of the FMI against the PFMIs. Questions related to public interest considerations are focused on ensuring that the FMI's

objectives are clearly defined, giving a high priority to safety, financial stability and efficiency while also ensuring all other public interest considerations are identified and reflected in the FMI's objectives.

Supplementary Guidance for designated Canadian FMIs

By definition the PFMIs apply to systemically important FMIs, so safety and financial stability objectives should be given a high priority.

Efficiency is also a high priority that should contribute to (but not supersede) the safety and financial stability objectives.

Other public interest considerations such as competition and fair and open access should also be considered in the broader safety and financial stability context.

A framework (objectives, policies and procedures) should be in place for default and other emergency situations. The framework should articulate explicit principles to ensure financial stability and other relevant public interests are considered as part of the decision making process. For example, it should provide guidance on discretionary management decisions, consider the trade-offs between protecting the participants and the FMI while also ensuring the financial stability interests are upheld, and articulate a communication protocol with the board and regulators.

Practical questions/approaches to assessing the appropriateness of the framework include:

- Does the enabling legislation, articles of incorporation, corporate by-laws, corporate mission, vision statements, corporate risk statements/frameworks/methodology clearly articulate the objectives and are they appropriately aligned and communicated (transparent)?
- Do the objectives give appropriate priority to safety, financial stability, efficiency and other public interest considerations?
- Does the Board structure ensure the right mix of skills/experience and interests are in place to ensure the objectives are clear, appropriately prioritized, achieved and measured?
- What is the training provided to the Board and management to support the objectives?
- Do the service offerings and business plans support the objectives?
- Do the system design, rules, procedures support the objectives?
- Are the inter-dependencies and key dependencies considered and managed in the context of the broader financial stability objectives? For instance, do problem and default management policies and procedures appropriately provide for consideration of the broader financial stability interests and do they engage the key stakeholders and regulators?
- Are there procedures in place to get timely engagement of the Board to discuss emerging/current issues, consider scenarios, provide guidance and make decision?
- Does the framework ensure that the broader financial stability issues are considered in any actions relating to a participant suspension?

Box 2.2:
Joint Supplementary Guidance–
Vertically and Horizontally Integrated FMIs

Context

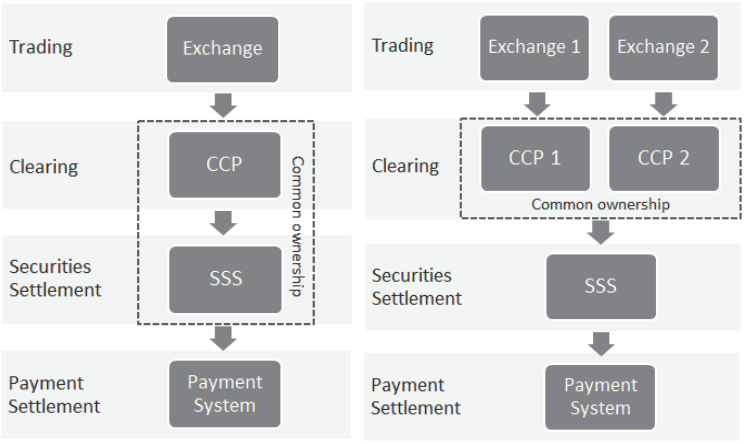
Consolidation, or integration, of FMI services may bring about benefits for merging FMIs; however it may also create new governance challenges. The PFMIs contain some general guidance regarding how FMIs should manage governance issues that arise in integrated entities. This note provides supplementary regulatory guidance for Canadian FMIs that either belong to an integrated entity or are considering consolidating with another entity to form one. The guidance applies to both vertically and horizontally integrated entities.

Vertical and horizontal integration in the context of FMIs

The PFMIs define a vertically integrated FMI group as one that brings together post-trade infrastructure providers under common ownership with providers of other parts of the value chain (for example, one entity owning and operating an exchange, CCP and SSS) and a horizontally integrated group as one that provides the same post-trade service offerings across a number of different products (for example, one entity offering CCP services for derivatives and cash markets).[56] Examples are shown in Figure 1.

Figure 1: Examples of FMI integration in the value chain

a) Example of vertically integrated FMIs b) Example of horizontally integrated FMIs



Guidance within the PFMIs

The following text has been extracted directly from the PFMIs. The pertinent information is in bold italics.

PFMI paragraph 3.2.5:

> *Depending on its ownership structure and organisational form, an FMI may need to focus particular attention on certain aspects of its governance arrangements.* ***An FMI that is part of a larger organisation, for example, should place particular emphasis on the clarity of its governance arrangements, including in relation to any conflicts of interests and outsourcing issues that may arise because of the parent or other affiliated organisation's structure. The FMI's governance arrangements should also be adequate to ensure that decisions of affiliated organisations are not detrimental to the FMI.[57] An FMI that is, or is part of, a for-profit entity may need to place particular emphasis on managing any conflicts between income generation and safety.***

PFMI paragraph 3.2.6:

> *An FMI may also need to focus particular attention on certain aspects of its risk-management arrangements as a result of its ownership structure or organisational form.* ***If an FMI provides services that present a distinct risk profile from, and potentially pose significant additional risks to, its payment, clearing, settlement, or recording function, the FMI needs to manage those additional risks adequately. This may include separating the additional services that the FMI provides from its payment, clearing, settlement, and recording function legally, or taking equivalent action.*** *The ownership structure and organisational form may also need to be considered in the preparation and implementation of the FMI's recovery or wind-down plans or in assessments of the FMI's resolvability.*

[56] CPMI-IOSCO 2010. "Market structure developments in the clearing industry: implications for financial stability." CPMI-IOSCO Paper No 92. Available at: http://www.bis.org/publ/cpss92.htm.

[57] If an FMI is wholly owned or controlled by another entity, authorities should also review the governance arrangements of that entity to see that they do not have adverse effects on the FMI's observance of this principle.

Supplementary guidance for designated Canadian FMIs

An FMI that is part of a larger entity faces additional risk considerations compared to stand-alone FMIs. While there are potential benefits from integrating services into one large entity, including potential risk reduction benefits, integrated entities could face additional risks such as a greater degree of general business risk. Examples of how this could occur include the following:

- losses in one function may spill-over to the entity's other functions;
- the consolidated entity may face high combined exposures across its functions; and
- the consolidated entity may face exposures to the same participants across its functions.

For a more extensive discussion of potentially heightened risks that integrated FMIs may face, see CPMI, "Market structure developments in the clearing industry: implications for financial stability" (2010).[58]

If an FMI belongs to a larger entity, or is considering consolidating with another entity, it should consider how its risk profile differs as part of the consolidated entity, and take appropriate measures to mitigate these risks.

In addition, FMIs that either belong to an integrated entity or are considering merging to form one should meet the following conditions.

1) Measures to protect critical FMI functions

- FMIs may be part of a larger consolidated entity. These FMIs must either:
    - legally separate FMI-related functions[59] from non-FMI-related functions performed by the consolidated entity in order to maximize bankruptcy remoteness of the FMI-related functions; or
    - have satisfactory policies and procedures in place to manage additional risks resulting from the non-FMI-related functions appropriately to ensure the FMI's financial and operational viability.
- If an FMI performs multiple FMI-related functions with distinct risk profiles within the same entity, the operator should effectively manage the additional risks that may result. The FMI should hold sufficient financial resources to manage the risks in all services it offers, including the combined or compounded risks that would be associated with offering the services through a single legal entity. If the FMI provides multiple services, it should disclose information about the risks of the combined services to existing and prospective participants to give an accurate understanding of the risks they incur by participating in the FMI. The FMI should carefully consider the benefits of offering critical services with distinct risk profiles through separate legal entities.
- If an FMI offers CCP services as part of its FMI-related functions, further conditions apply. CCPs take on more risk than other FMIs, and are inherently at higher risk of failure. Therefore, the FMI must either legally separate its CCP functions from other critical (non-CCP) FMI-related functions, or have satisfactory policies and procedures in place to manage additional risks appropriately to ensure the FMI's financial and operational viability.
- Legal separation of critical functions is intended to maximize their bankruptcy remoteness and would not necessarily preclude integration of common organizational management activities such as IT and legal services across functions as long as any related risks are appropriately identified and mitigated.

2) Independence of governance and risk management

- FMIs and non-FMIs may have different corporate objectives and risk management appetites which could conflict at the parent level. For example, non-FMI-related functions, such as trading venues, are generally more focused on profit generation than risk management and do not have the same risk profile as FMI-related functions. A trading venue in a vertically integrated entity may benefit from increased participation in its service if its associated clearing function lessens its participation requirements.

[58] Available at http://www.bis.org/cpmi/publ/d92.pdf.

[59] FMI-related functions are CCP, SSS, and CSD functions, including other core aspects of clearing and settlement necessary to perform the CCP, SSS, and CDS functions (see the CPMI-IOSCO glossary definitions of "clearing" and "settlement", available at http://www.bis.org/cpmi/publ/d00b.pdf).

- To mitigate potential conflicts, in particular the ability of other functions to negatively influence the FMI's risk controls, each FMI subsidiary should have a governance structure and risk management decision-making process that is separate and independent from the other functions and should maintain an appropriate level of autonomy from the parent and other functions to ensure efficient decision making and effective management of any potential conflicts of interest. In addition, the consolidated entity's broad governance arrangements should be reviewed to ensure they do not impede the FMI-related function's observance of the CPMI-IOSCO principle on governance.

3) Comprehensive management of risks

- Although risk management governance and decision-making should remain independent, it is nonetheless necessary that the consolidated entity is able to manage risk appropriately across the entity. At a consolidated level, the entity should have an appropriate risk management framework that considers the risks of each subsidiary and the additional risks related to their interdependencies.

- An FMI should identify and manage the risks it bears from and poses to other entities as a result of interdependencies. Consolidated FMIs should also identify and manage the risks they pose to one another as a result of their interdependencies. Consolidated FMIs may have exposures to the same participants, liquidity providers, and other critical service providers across products, markets and/or functions. This may increase the entity's dependence on these providers and may heighten the systemic risk associated with the consolidated entity compared to a stand-alone FMI. Where possible, the consolidated entity and its FMIs should consider ways to mitigate risks arising from shared dependencies. The consolidated entity and its FMIs should also consider conducting entity-wide operational risk testing related to identifying and mitigating these risks.

4) Sufficient capital to cover potential losses

- Consolidated entities face the risk that a single participant defaults in more than one subsidiary simultaneously. This could result in substantial losses for the consolidated entity which will then also need to replenish resources for the FMIs to continue to operate. FMIs should consider such risks in developing their resource replenishment plan.

- Consolidated entities may face higher or lower business risk than individual FMIs depending on size, complexity and diversification across affiliates. Consolidated entities should consider these impacts in their general business risk profiles and in determining the appropriate level of liquid assets needed to cover their potential general business losses.[60]

– ***PFMI Principle 5: Collateral***

Box 5.1:
Joint Supplementary Guidance –
Collateral

Context

The PFMIs establish the form and attributes of collateral that an FMI holds to manage its own credit exposures or those of its participants. This note provides additional guidance for Canadian FMIs to meet the components of the collateral principle related to: (i) acceptance of collateral with low credit, liquidity and market risk; (ii) concentrated holdings of certain assets; and (iii) calculating haircuts. In certain circumstances, regulators may allow exceptions to the collateral policy on a case-by-case basis if the FMI demonstrates that the risks can be adequately managed.

(i) Acceptable collateral

An FMI should conduct its own assessment of risks when determining collateral eligibility. In general, collateral held to manage the credit exposures of the FMI or those of its participants should have minimal credit, liquidity and market risk, even in stressed market conditions. However, asset categories with additional risk may be accepted when subject to conservative haircuts and adequate concentration limits.[61]

[60] Liquid assets held for general business losses must be funded by equity (such as common stock, disclosed reserves, or retained earnings) rather than debt.

[61] See PFMI Principle 5, key considerations 1 and 4.

The following clarifies regulators' expectations on what is acceptable collateral by specifying:

1) minimum requirements for all assets that are acceptable as collateral;

2) the asset categories that are judged to have minimal credit, liquidity and market risk; and

3) additional asset categories that could be acceptable as collateral if subject to conservative haircuts and concentration limits.

1) An FMI should conduct its own internal assessment of the credit, liquidity and market risk of the assets eligible as collateral. The FMI should review its collateral policy at least annually, and whenever market factors justify a more frequent review. At a minimum, acceptable assets should:

i) be freely transferable without legal, regulatory, contractual or any other constraints that would impair liquidation in a default;

ii) be marketable securities that have an active outright sale market even in stressed market conditions;

iii) have reliable price data published on a regular basis;

iv) be settled over a securities settlement system compliant with the Principles; and

v) be denominated in the same currency as the credit exposures being managed, or in a currency that the FMI can demonstrate it has the ability to manage.

An FMI should not rely only on external opinions to determine what acceptable collateral is. The FMI should conduct its own assessment of the riskiness of assets, including differences within a particular asset category, to determine whether the risks are acceptable. Since the primary purpose of accepting collateral is to manage the credit exposures of the FMI and its participants, it is paramount that assets eligible as collateral can be liquidated for fair value within a reasonable time frame to cover credit losses following a default. The annual review of the FMI's collateral policy provides an opportunity to assess whether risks continue to be adequately managed. Owing to the dynamic nature of capital markets, the FMI should monitor changes in the underlying risk of the specific assets accepted as collateral, and should adjust its collateral policy in the interim period between annual reviews, when required.

At a minimum, an asset should have certain characteristics in order to provide sufficient assurance that it can be liquidated for fair value within a reasonable time frame. These characteristics relate primarily to the FMI's ability to reliably sell the asset as required to manage its credit exposures. The asset should be unencumbered, that is, it must be free of legal, regulatory, contractual or other restrictions that would impede the FMI's ability to sell it. The challenges associated with selling or transferring non-marketable assets, or those without an active secondary market, preclude their acceptance as collateral.

2) Assets generally judged to have minimal credit, liquidity and market risk are the following:

i) cash;

ii) securities issued or guaranteed by the Government of Canada;[62]

iii) securities issued or guaranteed by a provincial government; and

iv) securities issued by the U.S. Treasury.

In general, the assets judged to have minimal risk are cash and debt securities issued by government entities with unique powers, such as the ability to raise taxes and set laws, and that have a low probability of default. Total Canadian debt outstanding is currently dominated by securities issued or guaranteed by the Government of Canada and by provincial governments. The relatively large supply of securities issued by these entities and their generally high creditworthiness contribute to the liquidity of these assets in the domestic capital market. Securities issued by the U.S. Treasury are also deemed to be of high quality for the same reasons. The overall riskiness of securities issued by the Government of Canada and the U.S. Treasury is further reduced by their

[62] Guarantees include securities issued by federal and provincial Crown corporations or other entities with an explicit statement that debt issued by the entity represents the general obligations of the sovereign.

previous record of maintaining value in stressed market conditions, when they tend to benefit from a "flight to safety."

It is essential that an FMI regularly assesses the riskiness of even the specific high-quality assets identified in this section to determine their adequacy as eligible collateral. In some cases, only certain assets within the more general asset category may be deemed acceptable.

3) **An FMI should consider its own distinct arrangements for allocating credit losses and managing credit exposures when accepting a broader range of assets as collateral. The following asset classes may be acceptable as collateral if they are subject to conservative haircuts and concentration limits:**

   i) **securities issued by a municipal government;**

   ii) **bankers' acceptances;**

   iii) **commercial paper;**

   iv) **corporate bonds;**

   v) **asset-backed securities that meet the following criteria: (1) sponsored by a deposit-taking financial institution that is prudentially regulated at either the federal or provincial level, (2) part of a securitization program supported by a liquidity facility , and (3) backed by assets of an acceptable credit quality;**

   vi) **equity securities traded on marketplaces regulated by a member of the CSA and the Investment Industry Regulatory Organization of Canada; and**

   vii) **other securities issued or guaranteed by a government, central bank or supranational institution classified as Level 1 high-quality assets by the Basel Committee on Banking Supervision.**

   An FMI should take into account its specific risk profile when assessing whether accepting certain assets as collateral would be appropriate. The decision to broaden the range of acceptable collateral should also consider the size of collateral holdings to cover the credit exposures of the FMI relative to the size of asset markets. In cases where the total collateral required to cover credit exposures is small compared with the market for high-quality assets, there is less potential strain on participants to meet collateral requirements.

   Accepting a broader range of collateral has certain advantages. Most importantly, it provides participants with more flexibility to meet the FMI's collateral requirements, which may be especially important in stressed market conditions. A broader range of collateral diversifies the risk exposures faced by the FMI, since it may be easier to liquidate diversified collateral holdings when liquidity unexpectedly dries up for a particular asset class. It also diversifies market risk by reducing potential exposure to idiosyncratic shocks. Accepting a broader range of assets recognizes the increased cost to market participants of posting only the highest-quality assets, as well as the increasing encumbrance of these assets in order to meet new regulatory standards.[63]

(ii) Concentration Limits

An FMI should avoid concentrated holding of assets where this could potentially introduce credit, market and liquidity risk beyond acceptable levels. In addition, the FMI should mitigate specific wrong-way risk by limiting the acceptance of collateral that would likely lose value in the event of a participant default, and prevent participants from posting assets they or their affiliates have issued. The FMI should measure and monitor the collateral posted by participants on a regular basis, with more frequent analysis required when more flexible collateral policies have been implemented.[64]

The following points clarify regulators' expectations regarding the composition of collateral accepted by an FMI by specifying:

1) broad limits for riskier asset classes to mitigate concentration risk;

2) targeted limits for securities issued by financial sector entities to mitigate specific wrong-way risk; and
3) the level of monitoring required for collateral posted by participants.

[63] The encumbrance of high-quality assets is expected to increase through a number of regulatory reforms, including Basel III, over-the-counter derivatives reform and the Principles.

[64] See Principle 5, key considerations 1 and 4.

1) **An FMI should limit assets from the broader range of acceptable assets identified in section (i)3) to a maximum of 40 per cent of the total collateral posted from each participant. Within the broader range of acceptable assets, the FMI should consider implementing more specific concentration limits for different asset categories.**

   An FMI should limit securities issued by a single issuer from the broader range of acceptable assets to a maximum of 5 per cent of total collateral from each participant.

   The guidance limits the acceptance of collateral from the broader range of assets to a maximum of 40 per cent because a higher proportion could potentially create unacceptable risks to FMIs and their participants. This limit is currently applied to the Bank's Standing Liquidity Facility and the Liquidity Coverage Ratio under Basel III. The benefits of expanding collateral—namely, providing participants with more flexibility and achieving greater diversification—are achieved within the limit of 40 per cent, with collateral in excess of this limit increasing the overall risk exposures with less benefit. In some circumstances, regulators may permit an FMI to accept more than 40 per cent of total collateral from the broader range of assets if the risk from a particular participant is low.
   Employing a limit of 5 per cent of total collateral for securities issued by a single issuer is a prudent measure to limit exposures from idiosyncratic shocks. It also reduces the need for procyclical adjustments to collateral requirements following a decline in value.

   An FMI should consider implementing more stringent concentration limits, as well as imposing limits on certain asset categories, depending on the FMI's specific arrangements for managing credit exposures. The considerations described in section (i) 3) for accepting a broader range of assets as collateral apply equally to the decision over whether more stringent concentration limits should be implemented.

2) **An FMI should limit the collateral from financial sector issuers to a maximum of 10 per cent of total collateral pledged from each participant. The FMI should not allow participants to post their own securities or those of their affiliates as collateral.**

   An FMI is exposed to specific wrong-way risk when the collateral posted is highly likely to decrease in value following a participant default. It is highly likely that the value of debt and equity securities issued by companies in the financial sector would be adversely affected by the default of an FMI participant, introducing wrong-way risk. This is especially the case for interconnected FMI participants with activities that are concentrated in domestic financial markets. Implementing a limit on financial sector issuers mitigates potential risk exposures from specific wrong-way risk. More stringent limits should be implemented where appropriate.

3) **In cases where only the highest-quality assets are accepted, an FMI is required to measure and monitor the collateral posted by participants during periodic evaluations of participant creditworthiness. The FMI should measure and monitor the correlation between a participant's creditworthiness and the collateral posted more frequently when a broader range of collateral is accepted. The FMI should have the ability to adjust the composition and to increase the collateral required from participants experiencing a reduction in creditworthiness.**

   When only the highest-quality assets are accepted as collateral, there is less risk associated with the composition of collateral posted by a participant; hence, such risk does not need to be monitored as closely. The FMI should monitor the composition of collateral pledged by participants more frequently when riskier assets are eligible, since such assets are more likely to be correlated with the participant's creditworthiness. FMIs should also consider the general credit risk of their participants when deciding how frequently monitoring should be conducted. In all circumstances, the FMI should have the contractual and legal ability to unilaterally require more collateral and to request higher-quality collateral from a participant that is judged to present a greater risk.

(iii) Haircuts

An FMI should establish stable and conservative haircuts that consider all aspects of the risks associated with the collateral. An FMI should evaluate the performance of haircuts by conducting backtesting and stress testing on a regular basis.[65]

The following points clarify regulators' expectations regarding the calculation and testing of haircuts by outlining:

[65] See PFMI Principle 5, key considerations 2 and 3.

1) requirements for calculating haircuts; and

2) requirements for testing the adequacy of haircuts and overall collateral accepted.

1) An FMI should apply stable and conservative haircuts that are calibrated against stressed market conditions. When the same haircut is applied to a group of securities, it should be sufficient to cover the riskiest security within the group. Haircuts should reflect both the specific risks of the collateral accepted and the general risks of an FMI's collateral policy.

Including periods of stressed market conditions in the calibration of haircuts should increase the haircut rate. In addition to representing a conservative approach, this helps to mitigate the risk of a procyclical increase in haircuts during a period of high volatility. Typically, FMIs group similar securities by shared characteristics for the purposes of calculating haircuts (e.g., Government of Canada bonds with similar maturities). An FMI should recognize the different risks associated with each individual security by ensuring that the haircut is sufficient to cover the security with the most risk within each group. Haircuts should always account for all of the specific risks associated with each asset accepted as collateral. However, the FMI should also consider the portfolio risk of the total collateral posted by a participant; the FMI may consider employing deeper haircuts for concentration and wrong-way risk above certain thresholds.

2) An FMI should perform backtesting of its collateral haircuts on at least a monthly basis, and conduct a more thorough review of haircuts quarterly. The FMI's stress tests should take into account the collateral posted by participants.

FMIs are expected to calculate stable and conservative haircuts by considering stressed market conditions. In general, including stressed market conditions in the calibration of haircuts should provide a high level of coverage that does not require continuous testing and verification. Nonetheless, backtesting on a monthly basis allow the adequacy of haircuts to be evaluated against observed outcomes. A quarterly review of haircuts balances the objective of stable haircuts with the need to adjust haircuts as required. Including changes to collateral values as part of stress testing provides a more accurate assessment of potential losses in a default scenario.

– ***PFMI Principle 7: Liquidity risk***

Box 7.1:
Joint Supplementary Guidance –
Liquidity Risk

Context

The PFMIs define liquidity risk as risk that arises when the FMI, its participants or other entities cannot settle their payment obligations when due as part of the clearing or settlement process. This note provides additional guidance for Canadian FMIs to meet the components of the liquidity-risk principle related to: (i) maintaining sufficient liquid resources and (ii) qualifying liquid resources.

(i) Maintaining sufficient liquid resources

An FMI should maintain sufficient qualifying liquid resources to cover its liquidity exposures to participants with a high degree of confidence. An FMI should maintain additional liquid resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible conditions. Liquidity stress testing should be performed on a daily basis. An FMI should verify that its liquid resources are sufficient through comprehensive stress testing conducted at least monthly.[66]

The information provided in this section clarifies regulators' expectations of sufficient qualifying liquid resources by specifying:

1) the degree of confidence required to cover liquidity exposures;

2) the total liquid resources that should be maintained; and

[66] See PFMI Principle 7, key considerations 3, 5, 6 and 9.

3) how the FMI should verify that its liquid resources are sufficient and adjust liquid resources when necessary.

1) Qualifying liquid resources should meet an established single-tailed confidence level of at least 97 per cent with respect to the estimated distribution of potential liquidity exposures.[67] The FMI should have an appropriate method for estimating potential exposures that accounts for the design of the FMI and other relevant risk factors.

The guidance requires a high threshold for covering liquidity exposures with qualifying liquid resources, while also considering the expense associated with obtaining these resources. A 97 per cent degree of confidence is equivalent to less than one observation per month (on average) in which a liquidity exposure is greater than the FMI's qualifying liquid resources. However, if it is to meet the required threshold, the FMI should estimate its potential liquidity exposures accurately. The FMI should account for all relevant predictive factors when estimating potential exposures. While historical exposures are expected to form the basis of estimated potential exposures, the FMI should account for the impact of new products, additional participants, changes in the way transactions settle or other relevant market- risk factors.

2a) An FMI should maintain additional liquid resources that are sufficient to cover a wide range of potential stress scenarios. Total liquid resources should cover the FMI's largest potential exposure under a variety of extreme but plausible conditions. The FMI should have a liquidity plan that justifies the use of other liquid resources and provides the supporting rationale for the total liquid resources that it maintains.

The guidance requires that total liquid resources be determined by the largest potential exposure in extreme but plausible conditions. This implies maintaining total liquid resources sufficient to cover at least the FMI's largest observed liquidity exposures, but the liquidity resources would likely be larger, based on an assessment of potential liquidity exposures in extreme but plausible conditions. The FMI's liquidity plan should explain why the FMI's estimated largest potential exposure is an accurate assessment of the FMI's liquidity needs in extreme but plausible conditions, thereby demonstrating the adequacy of the FMI's total liquid resources.

It is permissible for an FMI to manage this risk in part with other liquid resources because it may be prohibitively expensive, or even impossible, for the FMI to obtain sufficient qualifying liquid resources. FMIs face increased risk from liquid resources that do not meet the strict definition of "qualifying," and thus an FMI should include in its liquidity plan a clear explanation of how these resources could be used to satisfy a liquidity obligation. This additional explanation is warranted in all cases, even when the FMI's dependence on other liquid resources is minimal.

2b) When applicable, the possibility that a defaulting participant is also a liquidity provider should be taken into account.

Generally, the liquidity providers for Canadian FMIs are also participants in the FMI. When a defaulting participant is also a liquidity provider, it is important that the FMI's liquidity facilities are arranged in such a way that it has sufficient liquidity. To do so, the FMI should either have additional liquid resources or negotiate a backup liquidity provider, so that the FMI has sufficient liquidity (as specified in this guidance) in the event that one of its liquidity providers defaults.

3) FMIs should perform liquidity stress testing on a daily basis to assess their liquidity needs. At least monthly, FMIs should conduct comprehensive stress tests to verify the adequacy of their total liquid resources and to serve as a tool for informing risk management. Stress-testing results should be reviewed by the FMI's risk-management committee and reported to regulators on a regular basis.

FMIs should have clear procedures to determine whether their liquid resources are sufficient and to adjust their available liquid resources when necessary. A full review and potential resizing of liquid resources should be completed at least annually.

The annual validation of an FMI's model for managing liquidity risk should determine whether its stress testing follows best practices and captures the potential risks faced by the FMI.

FMIs should assess their liquidity needs through stress testing that includes the measurement of the largest daily liquidity exposure that they face. FMIs should also conduct stress testing to verify whether their liquid

[67] A "potential liquidity exposure" is defined as the estimated maximum daily liquidity needs resulting from the market value of the FMI's payment obligations under normal business conditions. FMIs should consider potential liquidity exposures over a rolling one-year time frame.

resources are sufficient to cover potential liquidity exposures under a wide range of stress scenarios. An annual full review and potential resizing of liquid resources provides adequate time to negotiate with liquidity providers. While it may be impractical for FMIs to frequently obtain additional liquid resources, it is important that FMIs clearly define the circumstances requiring prompt adjustment of their available liquid resources, and have a reliable plan for doing so. Establishing clear procedures provides transparency regarding an FMI's decision-making process and prevents the FMI from delaying required increases in liquid resources beyond what is reasonably acceptable. The review of stress- testing results by the FMI's risk-management committee provides additional assurance that liquid resources are sufficient, and whether an interim resizing is necessary. Reporting results to regulators on a monthly basis allows for timely intervention if liquid resources have been deemed inadequate.

Comprehensive stress testing should also encompass a broad range of stress scenarios, not just to verify whether the FMI's liquid resources are sufficient, but also to identify potential risk factors. Reverse stress testing, more extreme stress scenarios, valuation of liquid assets and focusing on individual risk factors (e.g., available collateral) all help to inform the FMI of potential risks. The annual validation of the FMI's risk-management model enables it to fully assess the appropriateness of the stress scenarios conducted and the procedures for adjusting liquid resources.

(ii) Qualifying liquid resources

Qualifying liquid resources should be highly reliable and have same-day availability. Liquid resources are reliable when the FMI has near certainty that the resources it expects will be available when required. Qualifying liquid resources should be available on the same day that they are needed by the FMI to meet any immediate liquidity obligation (e.g., a participant's default). Qualifying liquid resources that are denominated in the same currency as the FMI's exposures count toward its minimum liquid-resource requirement.[68]

The following section clarifies regulators' expectations as to what is considered a qualifying liquid resource by:

1) identifying the assets in the possession, custody or control of the FMI that are considered qualifying liquid resources; and

2) setting clear standards for liquidity facilities to be considered qualifying liquid resources, including more-stringent standards for uncommitted liquidity facilities.

1) Cash and treasury bills[69] in the possession, custody or control of an FMI are qualifying liquid resources for liquidity exposures denominated in the same currency.[70]

Cash held by an FMI does not fluctuate in value and can be used immediately to meet a liquidity obligation, thereby satisfying the criteria for liquid resources to be highly reliable and available on the same day.[71] Treasury bills issued by the Government of Canada or the U.S. Treasury also meet the definition of a qualifying liquid resource. By market convention, sales of treasury bills settle on the same day, allowing funds to be obtained immediately, whereas other bonds can settle as late as three days after the date of the trade. Treasury bills can also be transacted in larger sizes with less market impact than most other bonds. In addition, the shorter-term nature of treasury bills makes them more liquid than other securities during a crisis (i.e., they benefit from a "flight to liquidity"). Thus, there is a high degree of certainty that the FMI would obtain liquid resources in the amount expected following the sale of treasury bills.

2a) Committed liquidity facilities are qualifying liquid resources for liquidity exposures denominated in the same currency if the following criteria are met:

i) facilities are pre-arranged and fully collateralized;

ii) there is a minimum of three independent liquidity providers;[72] and

[68] See PFMI Principle 7, key considerations 4, 5 and 6

[69] "Treasury bills" refers to bonds issued by the Government of Canada and the U.S. Treasury with a maturity of one year or less.

[70] This section refers to unencumbered assets free of legal, regulatory, contractual or other restrictions on the ability of the FMI to liquidate, sell, transfer or assign the asset.

[71] "Cash" refers to currency deposits held at the issuing central bank and at creditworthy commercial banks. "Value" in this context refers to the nominal value of the currency.

[72] The Liquidity providers should not be affiliates to be considered independent.

iii) the FMI conducts a level of due diligence that is as stringent as the risk assessment completed for FMI participants.

For liquidity facilities to be considered reliable, an FMI should have near certainty that the liquidity provider will honour its obligation. Pre-arranged liquidity facilities provide clarity on terms and conditions, allowing greater certainty regarding the obligations and risks of the liquidity providers. Pre- arranged facilities also reduce complications associated with obtaining liquidity, when required. Furthermore, a liquidity provider is most likely to honour its obligations when lending is fully collateralized. Therefore, only the amount that is collateralized will be considered a qualifying liquid resource. A liquidity facility is more reliable when the risk of non-performance is not concentrated in a single institution. By having at least three independent liquidity providers, the FMI would continue to diversify its risks should even a single provider default. To monitor the continued reliability of a liquidity facility, the FMI should assess its liquidity providers on an ongoing basis. In this respect, an FMI's risk exposures to its liquidity providers are similar to the risks posed to it by its participants. Therefore, it is appropriate for the FMI to conduct comparable evaluations of the financial health of its liquidity providers to ensure that the providers have the capacity to perform as expected.

2b) Uncommitted liquidity facilities are considered qualifying liquid resources for liquidity exposures in Canadian dollars if they meet the following additional criteria:

i) the liquidity provider has access to the Bank of Canada's Standing Liquidity Facility (SLF);

ii) the facility is fully collateralized with SLF-eligible collateral; and

iii) the facility is denominated in Canadian dollars.

More-stringent standards are warranted for uncommitted facilities because a liquidity provider's incentives to honour its obligations are weaker. However, the risk that the liquidity provider will be unwilling or unable to provide liquidity is reduced by the requirement that it needs to be a direct participant in the Large Value Transfer System and that the collateral be eligible for the Standing Liquidity Facility (SLF). This is because the collateral obtained from the FMI in exchange for liquidity can be pledged to the Bank of Canada under the SLF. This option significantly reduces the liquidity pressures faced by the liquidity provider that could interfere with its ability to perform on its obligations. A facility in a foreign currency would not qualify because the Bank does not lend in currencies other than the Canadian dollar. The increased reliability of liquidity providers with access to routine credit from the central bank is recognized explicitly within the PFMIs.

– PFMI Principle 15: General business risk

Box 15.1:
Joint Supplementary Guidance –
General Business Risk

Context

The PFMIs define general business risk as any potential impairment of the financial condition (as a business concern) of an FMI owing to declines in its revenue or growth in its expenses, resulting in expenses exceeding revenues and a loss that must be charged against capital. These risks arise from an FMI's administration and operation as a business enterprise. They are not related to participant default and are not covered separately by financial resources under the Credit or Liquidity Risk Principles. To manage these risks, the PFMIs state that FMIs should identify, monitor and manage their general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses. This note provides additional guidance for Canadian FMIs to meet the components of the general business risk principle related to: (i) governing general business risk; (ii) determining sufficient liquid net assets; and (iii) identifying qualifying liquid net assets. It also establishes the associated timelines and disclosure requirements.

(i) Governance of general business risk

Principle 15, key consideration 1 of the PFMIs states:

> *An FMI should have robust management and control systems to identify, monitor, and manage general business risk.*

The following points clarify the authorities' expectations on how an FMI's governance arrangements should address general business risk.

An FMI's Board of Directors should be involved in the process of identifying and managing business risks.

Management of business risks should be integrated within an FMI's risk-management framework, and the Board of Directors should be responsible for determining risk tolerances related to business risk and for assigning responsibility for the identification and management of these risks. These risk tolerances and the process for the identification and management of business risk should be the foundation for the FMI's business risk-management policy. Based on the PFMIs, the policies and procedures governing the identification and management of business risk should meet the standards outlined below.

- The FMI's business risk-management policy should be approved by the Board of Directors and reviewed at least annually. The policy should be consistent with the Board's overall risk tolerance and risk-management strategy.
- The Board's Risk Committee should have a role in advising the Board on whether the business risk-management policy is consistent with the FMI's general risk-management strategy and risk tolerance.
- The business risk-management policy should provide clear responsibilities for decision making by the Board, and assign responsibility for the identification, management and reporting of business risks to management.

(ii) Determining sufficient liquid net assets

Principle 15, key consideration 2 of the PFMIs states:

> *An FMI should hold liquid net assets funded by equity […] so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.*

Principle 15, key consideration 3 of the PFMIs states:

> *An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses.*

The following points clarify the authorities' expectations on how FMIs should calculate their sufficient liquid net assets:

Until guidance for recovery planning and for calculating the associated costs is completed, FMIs are required to hold liquid net assets to cover a minimum of six months of current operating expenses.

In calculating current operating expenses, FMIs will need to:

- **Assess and understand the various general business risks they face** to allow them to estimate as accurately as possible the required amount of liquid net assets. These estimates should be based on financial projections, which take into consideration, for example, past loss events, anticipated projects and increased operating expenses.
- **Restrict the calculation to ongoing expenses.** FMIs will need to adjust their operating costs such that any extraordinary expenses (i.e., unessential, infrequent or one-off costs) are excluded. Typically, operating costs include both fixed costs (e.g., premises, IT infrastructure, etc.) and variable costs (e.g., salaries, benefits, research and development, etc.).
- **Assess the portion of staff from each corporate department required to ensure the smooth functioning of the FMI during the six-month period.** The calculation of operating expenses would include some indirect costs. FMIs would require not only dedicated operational staff, but also various supporting staff. These could include (but are not limited to) staff from the FMI's Legal, IT and HR departments or staff required to ensure the continued functioning of other FMIs that could be necessary to support the FMI.

To fully observe Principle 15, FMIs must hold sufficient liquid assets to cover the greater of (i) funds required for FMIs to implement their recovery or wind-down; or (ii) six months of current operating expenses. In the interim, until recovery planning guidance is published, only the latter amount will apply.

The amount of liquid net assets required to implement an FMI's recovery or wind-down plans will depend on the scenarios or tools available to the FMI. The acceptable recovery and orderly wind-down plans for Canadian FMIs will be articulated by the authorities in forthcoming guidance. Once this guidance on recovery planning has been developed, the guidance on general business risk will be updated to provide FMIs with additional clarity on how to calculate the costs associated with these plans and determine the amount of liquid net assets required.

(iii) Qualifying liquid net assets

Explanatory note 3.15.5 of the PFMIs states:

> *An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. Equity allows an FMI to absorb losses on an ongoing basis and should be permanently available for this purpose.*

Principle 15, key consideration 4 of the PFMIs states:

> *Assets held to cover general business risk should be of high quality and sufficiently liquid to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.*

Principle 15, key consideration 3 of the PFMIs states:

> *These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles.*

The following points clarify the authorities' expectations on which assets qualify to be held against general business risk, and how these assets should be held to ensure that they are permanently available to absorb general business losses.

Assets held against general business risk should be of high quality and sufficiently liquid, such as cash, cash equivalents and liquid securities.

Authorities have developed regulatory guidance related to managing liquidity and investment risks, which provides additional clarity on the definition of cash equivalents and liquid securities, respectively.

- **Cash equivalents** – are considered to be treasury bills[73] issued by either the Canadian or U.S. federal governments. As noted in the liquidity guidance, by market convention, sales of treasuries settle on the same day, allowing funds to be obtained immediately, whereas other bonds can settle as late as three days after the trade date.

- **Liquid securities** – for the purposes of general business risk, liquid securities are defined by the financial instruments criteria listed in the guidance on the Investment Risk Principle. These criteria outline financial instruments considered to have minimal credit, market, and liquidity risk.

Liquid net assets must be held at the level of the FMI legal entity to ensure that they are unencumbered and can be accessed quickly. Liquid net assets may be pooled with assets held for other purposes, but must be clearly identified as held against general business risk.

FMIs may need to accumulate liquid net assets for purposes other than to meet the General Business Risk Principle. However, assets held against general business risk cannot be used to cover participant default risk or any other risks covered by the financial resources principles.

Liquid net assets can be pooled with assets held for other purposes, but must be clearly identified as held against general business risk in the FMI's reports to its regulators.

(iv) Timelines for assessing and reporting the level of liquid net assets

Explanatory note 3.15.8 of the PFMIs states:

> *To ensure the adequacy of its own resources, an FMI should regularly assess and report its liquid net assets funded by equity relative to its potential business risks to its regulators.*

[73] Treasury bills refer to short-term (i.e. maturity of one year or less) debt instruments issued by the Canadian or U.S. federal government.

The following clarifies the authorities' expectations of the frequency with which FMIs should assess and report their required level of liquid net assets.

FMIs should report to authorities the amount of liquid net assets held against business risk annually, at a minimum.

An FMI should report to the authorities the amount of liquid net assets funded by equity held exclusively against business risk and quantify its business risks as major developments arise, or at least on an annual basis. This report should include an explanation of the methodology used to assess the FMI's business risks and to calculate its requirements for liquid net assets.

FMIs should recalculate the required amount of liquid net assets annually, at a minimum.

Once FMI operators have established the amount of liquid net assets required to cover six months of operating expenses, FMIs should recalculate the required amount of liquid net assets as major developments occur, or annually, at a minimum. Once the authorities have provided further guidance on recovery and FMIs have developed recovery plans, FMIs should also evaluate the need to increase the amount of liquid net assets they should hold to meet the General Business Risk Principle.

To establish clear procedures that improve transparency regarding an FMI's decision-making process and to prevent the FMI from delaying required increases in liquid resources beyond what is reasonably acceptable, FMIs should maintain a viable capital plan for raising additional acceptable resources should these resources fall close to or below the amount needed. This plan should be approved by the Board of Directors and updated annually, or as major developments occur.

FMIs should review their methodology for calculating the required level of liquid net assets at least once every five years, or as major developments occur.[74]

The methodology for calculating the amount of required liquid net assets should be reviewed at least every five years to ensure that the calculation remains relevant over time.

– ***PFMI Principle 16: Custody and investment risks***

Box 16.1:
Joint Supplementary Guidance –
Custody and Investment Risks

Context

The PFMIs define investment risk as the risk faced by an FMI when it invests its own assets or those of its participants.

- An FMI holds assets for a variety of purposes, some of which are referred to specifically in the PFMIs*:* to cover its business risk (Principle 15), to cover credit losses (Principle 4) and to cover credit exposures (Principle 6) using the collateral pledged by participants.
- An FMI may also hold financial assets for purposes not directly related to the risk management issues addressed within the PFMIs (e.g., employee pensions, general investment assets).

An FMI's strategy for investing assets should be consistent with its overall risk-management strategy (Principle 16). The purpose of this note is to provide further guidance on regulators' expectations regarding the management of investment risk. This guidance helps to ensure that an FMI's investments are managed in a way that protects the financial soundness of the FMI and its participants.[75]

(i) Governance

The PFMIs state that the Board of Directors is responsible for overseeing the risk-management function and approving material risk decisions. An FMI should develop an investment policy to manage the risk arising from the investment of its own

[74] In the context of this specific guidance item, "major developments" refers to the major changes to operations, product and service offerings, or classes of participation.

[75] This guidance on investment risk is based on aspects of Principle 2 – Governance, Principle 3 – Comprehensive Framework for the Management of Risk, and Principle 16 – Custody and Investment Risk.

assets and those of its participants.

- The FMI's investment policy should be approved by the Board and reviewed at least annually. The policy should be consistent with the Board's overall risk tolerance and considered part of the FMI's risk-management framework.
- The Risk Committee should advise the Board on whether the investment policy is consistent with the FMI's general risk-management strategy and risk tolerance.
- The Board should assess the advantages and disadvantages of managing assets internally or outsourcing them to an external manager. The FMI retains full responsibility for any actions taken by its external manager.
- The FMI should establish criteria for the selection of an external manager.[76]

The FMI's investment policy should clearly identify those who are accountable for investment performance. The investment policy should also:

- Provide a clear explanation of the Board's delegated responsibility for investment decision making.
- Specify clear responsibilities for monitoring investment performance (against established benchmarks) and risk exposures (against limits or constraints). Procedures should be established to ensure that appropriate actions are taken when breaches occur, including possible reporting to the Board.
- Investment performance and key risk metrics should be reported to the Board at least quarterly.[77]

(ii) Investment strategy

The investment strategy chosen by an FMI should not allow the pursuit of profit to compromise its financial soundness. As outlined below, additional consideration should be given to the investment strategy governing assets held specifically for risk-management purposes (i.e. Principle 4-7 and Principle 15).

Investment objectives

The investment policy should include appropriate investment objectives for the various assets held for risk-management purposes. The stated expected return and risk tolerance of the investment objectives should reflect the:

- specific purpose of the assets;
- relative importance of the assets in the overall risk management of the FMI; and
- requirement within the PFMIs for FMIs to invest in instruments with minimal credit, market and liquidity risk (see the Appendix for the minimum standards of acceptable instruments).

The investment objectives should also help to determine the appropriate benchmarks for measuring investment performance.

Investment constraints

The importance of assets held for risk-management purposes warrants the use of investment constraints. It is paramount that an FMI have prompt access to these assets with minimal price impact to avoid interference with their primary use for risk management. Investment of these assets should, at a minimum, observe the following:

- To reduce concentration risk, no more than 20 per cent of total investments should be invested in municipal and private sector securities. Investment in a single private sector or municipal issuer should be no more than 5 per cent of total investments.
- To mitigate specific wrong-way risk, investments should, as much as possible, be inversely related to market events that increase the likelihood of those assets being required. Investment in financial sector securities

[76] At a minimum, external managers should have demonstrated past performance and expertise, as well as strong risk-management practices such as an internal audit function and processes to protect and segregate the FMI's assets.

[77] Investment performance may also be reported to a Board committee with special expertise to which the Board has delegated the authority to review investment performance (e.g., an Investment Committee).

should be no more than 10 per cent of total investments. An FMI should not invest assets in the securities of its own affiliates. An FMI is not permitted to reinvest participant assets in a participant's own securities or those of its affiliates, as specified in Principle 16.

- For investments that are subject to counterparty credit risk, an FMI should set clear criteria for choosing investment counterparties and setting exposure limits.

The investment constraints should be clearly stated in the investment policy in order to provide clear guidance for those responsible for investment decision making.[78]

Link to risk management

FMIs should account for the implications of investing assets on their broader risk-management practices. The following issues should be considered when investing assets held for risk management purposes:

- An FMI's process for determining whether sufficient assets are available for risk management should account for potential investment losses. For example, investing the assets available to a CCP to cover losses from a participant default could lose value in a default scenario, resulting in less credit-risk protection. An FMI should hold additional assets to cover potential losses from its investments held for risk-management purposes.

- An FMI should account for the implications of investing assets on its ability to effectively manage liquidity risk. In particular, identification of the FMI's available liquid resources should account for the investment of its own and participants' assets. For example, cash held at a creditworthy commercial bank would no longer be considered a qualifying liquid resource under Principle 7 if it were invested in the debt instrument of a private sector issuer.

- The investment of an FMI's own assets and those of its participants should not circumvent related risk management requirements. For example, the reinvestment of participants' collateral should still respect the FMI's collateral concentration limits applicable to those assets.

Appendix

For the purposes of Principle 16, financial instruments can be considered to have minimal credit, market and liquidity risk if they meet *each* of the following conditions:

1. Investments are debt instruments that are:

    a. securities issued by the Government of Canada;

    b. securities guaranteed by the Government of Canada;

    c. marketable securities issued by the United States Treasury;

    d. securities issued or guaranteed by a provincial government;

    e. securities issued by a municipal government;

    f. bankers' acceptances;
    g. commercial paper;

    h. corporate bonds; and

    i. asset-backed securities that meet the following criteria: (1) sponsored by a deposit-taking financial institution that is prudentially regulated at either the federal or provincial level, (2) part of a securitization program supported by a liquidity facility, and (3) backed by assets of an acceptable credit quality.

2. The FMI employs a defined methodology to demonstrate that debt instruments have low credit risk. This methodology should involve more than just mechanistic reliance on credit-risk assessments by an external party.

[78] The use of investment vehicles where investments are held indirectly (e.g. mutual funds and exchange-traded funds) should not result in breaches to the investment constraints listed.

3. The FMI employs limits on the average time-to-maturity of the portfolio based on relevant stress scenarios in order to mitigate interest rate risk exposures.

4. Instruments have an active market for outright sales or repurchase agreements, including in stressed conditions.

5. Reliable price data on debt instruments are available on a regular basis.

6. Instruments are freely transferable and settled over a securities settlement system compliant with the PFMIs.

– ***PFMI Principle 23: Disclosure of rules, key procedures, and market data***

Box 23.1:
Joint Supplementary Guidance –
Disclosure of Rules, Key Procedures and Market Data

Context

The PFMIs state that FMIs should provide sufficient information to their participants and prospective participants to enable them to clearly understand the risks and responsibilities of participating in the system. This note provides additional guidance for Canadian FMIs to meet the components of the disclosure principle related to: (i) public qualitative disclosure and (ii) public quantitative disclosure.

Requirements included in the PFMIs

Principle 23 outlines requirements for disclosure to participants as well as the general public. In addition, specific disclosure requirements are listed in the principles to which they pertain.

The following text has been extracted directly from the PFMIs, Principle 23, key consideration 5:

> *An FMI should complete regularly and disclose publicly responses to the CPMI-IOSCO Disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.*

To supplement key consideration 5, CPMI-IOSCO published two documents: the Disclosure framework for financial market infrastructures (the Disclosure Framework),[79] and the Public quantitative disclosure standards for central counterparties (the Quantitative Disclosure Standards).[80] This note will refer to the disclosures that result from completing the templates provided in these documents as the Qualitative Disclosure and the Quantitative Disclosure, respectively.

Supplementary guidance for Canadian FMIs designated by the Bank of Canada

On its public website, an FMI should publish its Qualitative Disclosure and Quantitative Disclosure, as well as any other public disclosure requirements specified in Principle 23 or in other principles. Any public disclosure should be written for an audience with general knowledge of the financial sector.

(a) Qualitative disclosure (*Applies to all types of FMIs*)

A Qualitative Disclosure should provide the public with a high-level understanding of an FMI's governance, operation and risk-management framework.

Summary narrative disclosure

In part four of the Disclosure Framework, FMIs are required to provide a summary narrative of their observance of the Principles. FMIs should provide these narratives at the principle level, and are not required to address key considerations or to provide answers to the detailed questions listed in Section 5 of the Disclosure Framework report. Instead, the narrative disclosure should focus on providing a broad audience with an understanding of how each Principle applies to the FMI, and what the FMI has done or plans to do to ensure its observance.

[79] The Disclosure Framework is part of a document published in December 2012, titled "Principles for financial market infrastructures: Disclosure framework and Assessment methodology", and is available at http://www.bis.org/press/p121214.htm.

[80] This document is available at http://www.bis.org/cpmi/publ/d125.pdf.

Timing

FMIs should update and publish their Qualitative Disclosures following significant changes[81] to the system or its environment, or at least every two years. Only the most current Qualitative Disclosure needs to be maintained on the FMI's website.

(b) Quantitative disclosure (*Applies only to CCPs*)

Quantitative Disclosures specify the set of key quantitative information required in the Disclosure Framework. They should follow the format provided by CPMI-IOSCO, allowing stakeholders, including the general public, to easily evaluate and compare FMIs.

Currently, CPMI-IOSCO has developed public quantitative disclosure standards only for CCPs. The following guidance applies only to CCPs; Canadian authorities will provide further guidance on the quantitative disclosure requirements of FMIs other than CCPs when such standards have been developed.

Context

Where a general audience may need additional context to properly interpret the data, it should be provided in explanatory notes or addressed in the CCP's Qualitative Disclosure. CCPs are encouraged to provide charts, background information and additional documentation where it may aid the reader's understanding.

Comparability

Regulators recognize that, given the different structures and arrangements among CCPs, an overly homogenized presentation format could lead to inaccurate comparability. Subject to regulatory approval, a CCP may provide analogous data in place of a disclosure requirement that is not applicable to its business or representative of the risks it faces. The CCP must justify to authorities the necessity and selection of the alternative metric.[82] If granted approval, the CCP must provide the original data to authorities with the frequency specified in the Quantitative Disclosure Standards, and must explain in each public disclosure why an alternative metric was chosen.

Confidentiality

A CCP's public disclosure obligation does not release it from its confidentiality duties. Where a required disclosure item could reveal (or allow knowledgeable parties to deduce) commercially sensitive information about individual clearing members, clients, third-party contractors or other relevant stakeholders, or where disclosure may amount to a breach of laws or regulations for maintaining market integrity, the data must be omitted. In this case, the CCP must justify the omission to authorities.[83] If granted approval, the CCP must provide the confidential data to authorities with the frequency specified in the Quantitative Disclosure Standards, and must explain the reason for the omission in each public disclosure.

Timing

Quantitative Disclosures should be reported quarterly, and updated with the frequency specified in the Quantitative Disclosure Standards.[84] Even though some required data may already be publicly disclosed in other reports, or may not have changed from the previous quarter, the data should still be included in the disclosure matrix for completeness and consistency. Data should be publicly disclosed no later than 60 days after the end of each fiscal quarter, and should remain available on its website for at least three years so that trends can be examined.

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81 Updated Qualitative Disclosures should be published subsequent to regulatory approval, and prior to the effective date of the significant change. Significant changes can include, but are not limited to: (i) any changes to the FMI's constating documents, bylaws, corporate governance or corporate structure; (ii) any material change to an agreement between the FMI and its participants or to the FMI's rules, operating procedures, user guides, or manuals or the design, operation or functionality of its operations and services; and (iii) the establishment of, or removal or material change to, a link, or commencing or ceasing to engage in a business activity.

82 If the authorities are satisfied with the justification, the CCP need not resubmit the substitution unless the CCP's structure or arrangements change the applicability of the original disclosure requirement, or the CCP wishes to change its substituted metric. CCPs are responsible for informing authorities of any changes that could affect the applicability of the originally required or substituted data.

83 If the authorities are satisfied with the justification, the CCP need not resubmit the omission unless the circumstances change the confidentiality of the disclosure. CCPs are responsible for informing the authorities of any changes that could affect the confidentiality of such data.

84 According to the Quantitative Disclosure Standards, items under general business risk should be updated annually, and all other items should be updated on a quarterly basis.

Chapter 7

Insider Reporting

This chapter is available in the print version of the OSC Bulletin, as well as as in Carswell's internet service SecuritiesSource (see www.carswell.com).

This chapter contains a weekly summary of insider transactions of Ontario reporting issuers in the System for Electronic Disclosure by Insiders (SEDI). The weekly summary contains insider transactions reported during the seven days ending Sunday at 11:59 pm.

To obtain Insider Reporting information, please visit the SEDI website (www.sedi.ca).

Chapter 11

IPOs, New Issues and Secondary Financings

Issuer Name:
Cenovus Energy Inc.
Principal Regulator - Alberta
Type and Date:
Preliminary Base Shelf Prospectus dated February 11, 2016
NP 11-202 Receipt dated February 11, 2016
Offering Price and Description:
US$5,000,000,000.00
Debt Securities
Common Shares
Preferred Shares
Subscription Receipts
Warrants
Share Purchase Contracts
Units
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2443049

Issuer Name:
Nautilus Minerals Inc.
Principal Regulator - British Columbia
Type and Date:
Preliminary Short Form Prospectus dated February 10, 2016
NP 11-202 Receipt dated February 10, 2016
Offering Price and Description:
$103,000,000.00 - Offering of Rights to subscribe For Up to 686,666,666 common shares
Price of $0.15 Per Common Share
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2442497

Issuer Name:
Nevada Copper Corp.
Principal Regulator - British Columbia
Type and Date:
Preliminary Short Form Prospectus dated February 9, 2016
NP 11-202 Receipt dated February 9, 2016
Offering Price and Description:
$ * - * per Common Share
Price: $* per Common Share
Underwriter(s) or Distributor(s):
GMP Securities L.P.
Dundee Securities Ltd.
Haywood Securities Inc.
Promoter(s):
-
Project #2442227

Issuer Name:
OSISKO GOLD ROYALTIES LTD
Principal Regulator - Quebec
Type and Date:
Preliminary Short Form Prospectus dated February 11, 2016
NP 11-202 Receipt dated February 11, 2016
Offering Price and Description:
$150,094,000 - 9,940,000 Units
Price: $15.10 per Unit
Underwriter(s) or Distributor(s):
BMO NESBITT BURNS INC.
RBC DOMINION SECURITIES INC.
NATIONAL BANK FINANCIAL INC.
MACQUARIE CAPITAL MARKETS CANADA LTD.
CIBC WORLD MARKETS INC.
HAYWOOD SECURITIES INC.
SCOTIA CAPITAL INC.
TD SECURITIES INC.
CORMARK SECURITIES INC.
DUNDEE SECURITIES LTD.
PARADIGM CAPITAL INC.
Promoter(s):
-
Project #2442148

Issuer Name:
BMO Tactical Global Bond ETF Fund (Series A, F, D, I and Advisor Series securities)
BMO Tactical Global Equity ETF Fund (Series A, T6, F, F6, D, I and Advisor Series securities)
BMO SelectClass® Income Portfolio (Series A, T6, F, I and Advisor Series securities)
BMO SelectClass® Balanced Portfolio (Series A, T6, F, I and Advisor Series securities)
BMO SelectClass® Growth Portfolio (Series A, T6, F, I and Advisor Series securities)
BMO SelectClass® Equity Growth Portfolio (Series A, T6, F, I and Advisor Series securities)
Principal Regulator - Ontario
Type and Date:
Amendment #3 dated February 4, 2016 to the Simplified Prospectuses and Annual Information Form dated April 13, 2015
NP 11-202 Receipt dated February 11, 2016
Offering Price and Description:
-
Underwriter(s) or Distributor(s):
BMO INVESTMENTS INC.
BMO Investments Inc.
Guardian Group of Funds Ltd.
Promoter(s):
BMO INVESTMENTS INC.
Project #2315738

Issuer Name:
CUP Capital Corp.
Principal Regulator - Ontario
Type and Date:
Final CPC Prospectus dated January 29, 2016
NP 11-202 Receipt dated February 9, 2016
Offering Price and Description:
MINIMUM OFFERING: $300,000.00 or 750,000 Common Shares
MAXIMUM OFFERING: $1,000,000.00 or 2,500,000 Common Shares
PRICE: $0.40 per Common Share
Agent's Option, Incentive Stock Options
Underwriter(s) or Distributor(s):
Mackie Research Capital Corporation
Promoter(s):
-
Project #2395811

Issuer Name:
Horizons Active Cdn Bond ETF
Horizons Active Cdn Dividend ETF (formerly Horizons Dividend ETF)
Horizons Active Cdn Municipal Bond ETF
Horizons Active Corporate Bond ETF (formerly Horizons Corporate Bond ETF)
Horizons Active Emerging Markets Dividend ETF
Horizons Active Floating Rate Bond ETF (formerly Horizons Floating Rate Bond ETF)
Horizons Active Floating Rate Preferred Share ETF
Horizons Active Floating Rate Senior Loan ETF
Horizons Active Global Dividend ETF (formerly Horizons Global Dividend ETF)
Horizons Active Global Fixed Income ETF (formerly known as Horizons Active Yield Matched Duration ETF)
Horizons Active High Yield Bond ETF (formerly Horizons High Yield Bond ETF)
Horizons Active Preferred Share ETF (formerly Horizons Preferred Share ETF)
Horizons Active US Dividend ETF
Horizons Active US Floating Rate Bond (USD) ETF (formerly Horizons U.S. Floating Rate Bond ETF)
Horizons Cdn Equity Managed Risk ETF (formerly Horizons Canadian Black Swan ETF)
Horizons Managed Global Opportunities ETF
Horizons Managed Multi-Asset Momentum ETF
Horizons S&P/TSX 60 Equal Weight Index ETF (formerly Horizons AlphaPro S&P/TSX 60 Equal Weight Index ETF)
Horizons US Equity Managed Risk ETF (formerly Horizons US Black Swan ETF)
Principal Regulator - Ontario
Type and Date:
Final Long Form Prospectus dated February 4, 2016
NP 11-202 Receipt dated February 9, 2016
Offering Price and Description:
Class E units and Advisor Class units
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2432195

Issuer Name:
Invesco Allocation Fund
Invesco Canada Money Market Fund
Invesco Canadian Balanced Fund
Invesco Canadian Premier Growth Class
Invesco Canadian Premier Growth Fund
Invesco Core Canadian Balanced Class
Invesco Emerging Markets Debt Fund
Invesco European Growth Class
Invesco Global Growth Class
Invesco Global Real Estate Fund
Invesco Indo-Pacific Fund
Invesco Intactive 2023 Portfolio
Invesco Intactive 2028 Portfolio
Invesco Intactive 2033 Portfolio
Invesco Intactive 2038 Portfolio
Invesco Intactive Balanced Growth Portfolio
Invesco Intactive Balanced Growth Portfolio Class
Invesco Intactive Balanced Income Portfolio
Invesco Intactive Balanced Income Portfolio Class
Invesco Intactive Diversified Income Portfolio
Invesco Intactive Diversified Income Portfolio Class
Invesco Intactive Growth Portfolio
Invesco Intactive Growth Portfolio Class
Invesco Intactive Maximum Growth Portfolio
Invesco Intactive Maximum Growth Portfolio Class
Invesco Intactive Strategic Yield Portfolio
Invesco International Growth Class
Invesco International Growth Fund
Trimark Canadian Opportunity Fund (formerly, Invesco Pure Canadian Equity Fund)
Invesco Select Canadian Equity Fund
Invesco Short-Term Income Class
PowerShares 1-5 Year Laddered Corporate Bond Index Fund
PowerShares Canadian Dividend Index Class
PowerShares Canadian Low Volatility Index Class
PowerShares Canadian Preferred Share Index Class
PowerShares Monthly Income Fund (formerly PowerShares Diversified Yield Fund)
PowerShares FTSE RAFI® Canadian Fundamental Index Class
PowerShares FTSE RAFI® Emerging Markets Fundamental Class
PowerShares FTSE RAFI® Global+ Fundamental Fund
PowerShares FTSE RAFI® U.S. Fundamental Fund
PowerShares Global Dividend Achievers Fund
PowerShares High Yield Corporate Bond Index Fund
PowerShares Real Return Bond Index Fund
PowerShares Tactical Bond Fund
PowerShares U.S. Low Volatility Index Fund
Trimark Advantage Bond Fund
Trimark Canadian Bond Class
Trimark Canadian Bond Fund
Trimark Canadian Class
Trimark Canadian Endeavour Fund
Trimark Canadian Fund
Trimark Canadian Opportunity Class
Trimark Canadian Plus Dividend Class
Trimark Canadian Small Companies Fund
Trimark Diversified Yield Class
Trimark Emerging Markets Class
Trimark Energy Class
Trimark Europlus Fund
Trimark Floating Rate Income Fund
Trimark Fund
Trimark Global Balanced Class
Trimark Global Balanced Fund
Trimark Global Dividend Class
Trimark Global Endeavour Class
Trimark Global Endeavour Fund
Trimark Global Fundamental Equity Class
Trimark Global Fundamental Equity Fund
Trimark Global High Yield Bond Fund
Trimark Global Small Companies Class
Trimark Short-Term Income Fund (formerly, Trimark Government Plus Income Fund)
Trimark Income Growth Fund
Trimark Interest Fund
Trimark International Companies Class
Trimark International Companies Fund
Trimark Resources Fund
Trimark Select Balanced Fund
Trimark U.S. Companies Class
Trimark U.S. Companies Fund
Trimark U.S. Money Market Fund
Trimark U.S. Small Companies Class
Principal Regulator - Ontario
Type and Date:
Amendment No. 3 dated February 5, 2016 to the Simplified Prospectuses of Trimark Canadian Fund and Trimark Canadian Class and Amendment No. 3 dated February 5, 2016 to the Annual Information Form dated July 31, 2015 (amendment no. 3)
NP 11-202 Receipt dated February 10, 2016
Offering Price and Description:
Series A, Series D, Series F, Series I, Series P, Series PF, Series T4, Series T6 and Series T8
Underwriter(s) or Distributor(s):

-Promoter(s):
Invesco Canada Ltd.
Project #2360859

Issuer Name:
Kinross Gold Corporation
Principal Regulator - Ontario
Type and Date:
Final Base Shelf Prospectus dated February 11, 2016
NP 11-202 Receipt dated February 12, 2016
Offering Price and Description:
$1,000,000,000
Debt Securities
Common Shares
Warrants
Subscription Receipts
Units
Share Purchase Contracts
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2434789

Issuer Name:
Sentry Alternative Asset Income Fund
Sentry Canadian Bond Fund (formerly Sentry Bond Plus Fund)
Sentry Canadian Income Class (formerly Sentry Select Canadian Income Class)
Sentry Canadian Income Fund (formerly Sentry Select Canadian Income Fund)
Sentry Canadian Resource Class (formerly Sentry Select Canadian Resource Class)
Sentry Conservative Balanced Income Class
Sentry Conservative Balanced Income Fund (formerly Sentry Select Conservative Income Fund)
Sentry Conservative Income Portfolio
Sentry Diversified Equity Class (formerly Sentry Diversified Total Return Class)
Sentry Diversified Equity Fund (formerly Sentry Diversified Total Return Fund)
Sentry All Cap Income Fund (formerly, Sentry Diversified Income Fund)
Sentry Energy Fund (formerly, Sentry Energy Growth and Income Fund)
Sentry Corporate Bond Class (formerly, Sentry Enhanced Corporate Bond Class)
Sentry Corporate Bond Fund (formerly, Sentry Enhanced Corporate Bond Fund)
Sentry Global Monthly Income Fund (formerly, Sentry Global Balanced Income Fund)
Sentry Global Growth and Income Class (formerly Sentry Global Dividend Class)
Sentry Global Growth and Income Fund (formerly Sentry Global Dividend Fund)
Sentry Global Mid Cap Income Fund
Sentry Growth and Income Fund (formerly Sentry Select Growth & Income Fund)
Sentry Growth and Income Portfolio
Sentry Growth Portfolio
Sentry Conservative Monthly Income Fund (formerly, Sentry Income Advantage Fund)
Sentry Balanced Income Portfolio (formerly, Sentry Income Portfolio)
Sentry Global Infrastructure Fund (formerly, Sentry Infrastructure Fund)
Sentry Money Market Class (formerly Sentry Select Money Market Class)
Sentry Money Market Fund (formerly Sentry Select Money Market Fund)
Sentry Precious Metals Class (formerly, Sentry Precious Metals Growth Class)
Sentry Precious Metals Fund (formerly, Sentry Precious Metals Growth Fund)
Sentry Global REIT Class (formerly, Sentry REIT Class)
Sentry Global REIT Fund (formerly, Sentry REIT Fund)
Sentry Small/Mid Cap Income Class
Sentry Small/Mid Cap Income Fund (formerly Sentry Small Cap Income Fund)
Sentry Global High Yield Bond Class (formerly, Sentry Tactical Bond Class)
Sentry Global High Yield Bond Fund (formerly, Sentry Tactical Bond Fund)
Sentry U.S. Monthly Income Fund (formerly, Sentry U.S. Balanced Income Fund)
Sentry U.S. Growth and Income Class
Sentry U.S. Growth and Income Fund
Principal Regulator - Ontario
Type and Date:
Amendment #4 dated January 22, 2016 to Final Simplified Prospectus, Annual Information Form and Fund Facts (NI 81-101) dated June 8, 2015
NP 11-202 Receipt dated February 9, 2016
Offering Price and Description:
-
Underwriter(s) or Distributor(s):
Sentry Investments Inc.
Promoter(s):
SENTRY INVESTMENTS INC.
Project #2336151

Issuer Name:
Spectral Medical Inc.
Principal Regulator - Ontario
Type and Date:
Final Short Form Prospectus dated February 10, 2016
NP 11-202 Receipt dated February 10, 2016
Offering Price and Description:
$10,010,000.00 - 14,300,000 Common Shares
Price: $0.70 per Offered Share
Underwriter(s) or Distributor(s):
Cormark Securities Inc.
Mackie Research Capital Corporation
Promoter(s):
-
Project #2439152

Issuer Name:
Ur-Energy Inc.
Principal Regulator - Ontario
Type and Date:
Final Short Form Prospectus dated February 10, 2016
NP 11-202 Receipt dated February 10, 2016
Offering Price and Description:
US$6,000,000.00 - 12,000,000 Common Shares
Price: US$0.50 per Common Share
Underwriter(s) or Distributor(s):
Cantor Fitzgerald Canada Corporation
Raymond James Ltd.
Dundee Securities Ltd.
Promoter(s):
-
Project #2438697

Issuer Name:
Slyce Inc.
Principal Jurisdiction - Ontario
Type and Date:
Preliminary Short Form Prospectus dated December 1, 2015
Withdrawn on February 10, 2016
Offering Price and Description:
Maximum Offering: $13,500,000 - 67,500,000 Units
Minimum Offering: $9,000,000 - 45,000,000 Units
Price: $0.20 per Unit
Underwriter(s) or Distributor(s):
Euro Pacific Canada Inc.
Salman Partners Inc.
Promoter(s):
-
Project #2426373

Issuer Name:
Value Line® Timeliness 100 Fund
Principal Jurisdiction - Ontario
Type and Date:
Preliminary Long Form Prospectus dated December 23, 2015
Withdrawn on February 9, 2016
Offering Price and Description:
Maximum Offering: $* - * Class A Units and/or Class T Units
Minimum Offering: $10,000,000 - 1,000,000 Units
Price: $10.00 per Class A Unit or Class T Unit
Minimum purchase: 100 Class A Units or Class T Units
Underwriter(s) or Distributor(s):
BMO Nesbitt Burns Inc.
CIBC World Markets Inc.
National Bank Finacial Inc.
Scotia Capital Inc.
Canaccord Genuity Corp.
GMP Securities L.P.
Raymond James Ltd.
Desjardins Securities Inc.
Dundee Securities Ltd.
Global Securities Corporation
Industrial Alliance Securities Inc.
Laurentian Bank Securities Inc.
Mackie Research Capital Corporation
Manulife Securities Incorporated
PI Financial Corp.
Promoter(s):
BMO Nesbitt Burns Inc.
Project #2432152

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Chapter 12

Registrations

12.1.1 Registrants

Type	Company	Category of Registration	Effective Date
New Registration	Transition Financial Advisors Group, Inc.	Portfolio Manager	February 8, 2016
New Registration	Mirelis Advisors S.A.	Portfolio Manager	February 9, 2016
New Registration	Equiton Capital Inc.	Exempt Market Dealer	February 10, 2016
Name Change	From: Jomisc Investments Inc. To: Slater Asset Management Inc.	Portfolio Manager	January 11, 2016

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Index

Adams, Herbert
Notice from the Office of the Secretary 1467
Order – s. 127 1492
OSC Reasons: Reasons and Decision on Sanctions and Costs – s. 127 1521

Almonty Industries Inc.
Cease Trading Order 1529

Andrew Peller Limited
Order – s. 104(2)(c) 1488

Andylan Capital Strategies Ltd.
Decision 1469

Ashraf, Talat
Notice of Hearing – ss. 127(1), 127(2), 127.1 1464
Notice from the Office of the Secretary 1466
Notice from the Office of the Secretary 1467
Order – s. 127 1485
Order with Related Statement of Allegations – ss. 127(1), 127(2), 127.1 1507

Authorization Order (Feb. 18, 2016)
Authorization Order – s. 3.5(3) 1491

Bishop, Steve
Notice from the Office of the Secretary 1467
Order – s. 127 1492
OSC Reasons: Reasons and Decision on Sanctions and Costs – s. 127 1521

Boomerang Oil, Inc.
Cease Trading Order 1529

CBK Enterprises Inc.
Notice from the Office of the Secretary 1467
Order – s. 127 1492
OSC Reasons: Reasons and Decision on Sanctions and Costs – s. 127 1521

Cerro Grande Mining Corporation
Cease Trading Order 1529

CI Investments Inc.
Notice from the Office of the Secretary 1466
Order with Related Settlement Agreement – ss. 127(1), 127(2), 127.1 1494

Citadel Securities LLC
Decision 1475

Companion Policy 24-102 Clearing Agency Requirements
Notice 1463
Rules and Policies 1531

Condon, Mary G.
Authorization Order – s. 3.5(3) 1491

Enerdynamic Hybrid Technologies Corp.
Cease Trading Order 1529

Equiton Capital Inc.
New Registration 1663

Form 24-102F1 Clearing Agency Submission to Jurisdiction and Appointment of Agent for Service of Process
Notice 1463
Rules and Policies 1531

Form 24-102F2 Cessation of Operations Report for Clearing Agency
Notice 1463
Rules and Policies 1531

Front Street Capital 2004
Decision 1473

Genterra Capital Inc.
Decision – s. 144 1471

Immunall Science Inc.
Order – s. 144 1482

Jensen, Maureen
Authorization Order – s. 3.5(3) 1491

Jomisc Investments Inc.
Name Change 1663

Kerwin, Edward P.
Authorization Order – s. 3.5(3) 1491

Khan, Muhammad M.
Notice of Hearing – ss. 127(1), 127(2), 127.1 1464
Notice from the Office of the Secretary 1466
Notice from the Office of the Secretary 1467
Order – s. 127 1485
Order with Related Statement of Allegations – ss. 127(1), 127(2), 127.1 1507

Kowal, Monica
Authorization Order – s. 3.5(3) 1491

Kricfalusi, Mary
Notice from the Office of the Secretary 1467
Order – s. 127 1492
OSC Reasons: Reasons and Decision on Sanctions and Costs – s. 127 1521

Leiper, Janet
Authorization Order – s. 3.5(3) 1491

Lenczner, Alan J.
Authorization Order – s. 3.5(3) 1491

Loman, Kevin
Notice from the Office of the Secretary 1467
Order – s. 127 1492
OSC Reasons: Reasons and Decision on Sanctions and Costs – s. 127 1521

Majestic Supply Co. Inc.
Notice from the Office of the Secretary 1467
Order – s. 127 1492
OSC Reasons: Reasons and Decision on Sanctions and Costs – s. 127 1521

Maxsood, Daniel
Notice of Hearing – ss. 127(1), 127(2), 127.1 1464
Notice from the Office of the Secretary 1466
Notice from the Office of the Secretary 1467
Order – s. 127 1485
Order with Related Statement of Allegations – ss. 127(1), 127(2), 127.1 1507

McAleer, John
Decision 1469

Mirelis Advisors S.A.
New Registration 1663

Moseley, Timothy
Authorization Order – s. 3.5(3) 1491

NI 24-102 Clearing Agency Requirements
Notice 1463
Rules and Policies 1531

OSC Staff Notice 51-726 – Report on Staff's Review of Insider Reporting and User Guides for Insiders and Issuers
Notice 1461

OSC Staff Notice 81-729 – 2015 Summary Report for Investment Fund and Structured Product Issuers
Notice 1459

Palisade Capital Management Ltd.
Decision 1469

Portner, Christopher
Authorization Order – s. 3.5(3) 1491

Slater Asset Management Inc.
Name Change 1663

Sniper Resources Ltd.
Cease Trading Order 1529

Starrex International Ltd.
Cease Trading Order 1529

Suncastle Developments Corporation
Notice from the Office of the Secretary 1467
Order – s. 127 1492
OSC Reasons: Reasons and Decision on Sanctions and Costs – s. 127 1521

Tang, Weizhen
Notice from the Office of the Secretary 1459
Order – ss. 127(1), 127(10) 1479

Tango Mining Limited
Cease Trading Order 1529

Transition Financial Advisors Group, Inc.
New Registration 1663

Vingoe, D. Grant
Authorization Order – s. 3.5(3) 1491

Welcome Place Inc.
Notice of Hearing – ss. 127(1), 127(2), 127.1 1464
Notice from the Office of the Secretary 1466
Notice from the Office of the Secretary 1467
Order – s. 127 1485
Order with Related Statement of Allegations – ss. 127(1), 127(2), 127.1 1507

West Red Lake Gold Mines Inc.
Cease Trading Order 1529

Yanaky, Daniel William
Notice from the Office of the Secretary 1465
Order 1478

Zhang, Tao
Notice of Hearing – ss. 127(1), 127(2), 127.1 1464
Notice from the Office of the Secretary 1466
Notice from the Office of the Secretary 1467
Order – s. 127 1485
Order with Related Statement of Allegations – ss. 127(1), 127(2), 127.1 1507