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OSC NOTICE 11-775
NOTICE OF STATEMENT OF PRIORITIES FOR FINANCIAL YEAR TO END MARCH 31, 2017

The *Securities Act* (Act) requires the Ontario Securities Commission (OSC or Commission) to deliver to the Minister of Finance by June 30th of each year a statement from the Commission setting out its priorities for its current financial year in connection with the administration of the Act, the regulations and rules, together with a summary of the reasons for the adoption of the priorities.

In the notice published by the Commission on March 10, 2016, the Commission set out its draft Statement of Priorities (SoP) and invited public input in advance of finalizing and publishing the 2016–2017 Statement of Priorities. Twenty-three responses were received which focussed on a wide range of issues.

We appreciate the time and effort taken by all of the commenters to review the SoP and provide their considered and helpful feedback. The responses were broadly supportive of the overall direction of the OSC goals and priorities and included support for:

a. the work of the OSC Investor Office and its commitment to expand and modernize the OSC's efforts in investor engagement, research, education and outreach and bring new perspectives to policy-making and operations

b. improved regulatory harmonization including pursuit of a national regulator and greater CSA cooperation

c. continued focus on gender diversity, including additional diversity measures for board members and executive and senior management positions

Other specific support was noted for the various proposals including the whistleblower program, the review of fixed income and research based work including post-implementation review of policies and rules.

The OSC continues to receive comments focused on the pace of regulatory development for various initiatives. These comments often vary depending on whether the commenter supports or opposes the initiative. The OSC is aware of these concerns and is committed to trying to achieve timely policy development where practical. However, to achieve harmonized, national regulatory solutions requires collaboration with other regulators and as a result, timelines and completion dates are often not entirely within our control. The OSC will continue to seek CSA-wide solutions that address regulatory issues, but where necessary may need to introduce Ontario only solutions if consensus cannot be achieved that addresses the issues in a timely manner.

A high level summary of key comment areas and our replies is set out below:

a. Our proposed priority of pursuing targeted reforms and introducing a Best Interest Standard (BIS) to enhance the advisor/client relationship received the most attention. Comments of support and seeking timely implementation were offset by a number of commenters who raised concerns including reduced access to advice and a lack of agreement on BIS within the CSA. Some recommended delaying a decision on BIS until the impact of Client Relationship Model – Phase 2 (CRM2) and other reforms became clearer and could be assessed. A number of comments were also provided on related issues such as proficiency and titles of advisers.

We continue to believe that the pursuit of targeted amendments to NI 31-103 and a BIS to enhance the advisor/client relationship are top priorities that we need to complete. We will continue to consider all available information to achieve an evidence-based decision on these important elements of our regulatory framework

As noted last year, we will be following the Ontario Government's review of financial planning and the impact that advisor titles and proficiency standards have on investor protection as part of this priority.

b. *Our proposed priority to address compensation arrangements in mutual funds received a significant number of responses. Comments of support and seeking implementation of regulations to discontinue embedded commissions and other forms of compensation were offset by a number of commenters who did not support this project and cited concerns that had arisen in other jurisdictions where embedded compensation arrangements were no longer allowed. For example, commenters noted that there were perceived negative effects on investor access to advice in the U.K.*

   A number of viewpoints were expressed and the OSC agrees that this issue requires careful analysis of the diverse range of factors involved. The OSC remains committed to achieving an evidence-based resolution to concerns with embedded compensation structures and will continue to maintain an open dialogue with stakeholders as we proceed through the next stages of this work.

c. *A number of commenters highlighted seniors' issues as a growing area of risk requiring more focus. Suggestions included creating a Seniors Advisory Committee as an additional priority to bring greater focus to these issues.*

   We agree that seniors and vulnerable investors are an important demographic that demand attention. The Investor Office has planned a number of initiatives, some of which are included in the identified priorities, to address these and other key investor protection issues. The Investor Office is developing the OSC's seniors strategy, which is expected to place a heavy emphasis on partnerships with organizations focused on the particular needs of seniors. In recognizing the importance of consulting with seniors' experts, the OSC will be establishing a new external Seniors Expert Advisory Committee (SEAC) that will provide staff with expert opinion and input on various policy, operational, education and outreach activities of the OSC designed for and targeted at older Canadians and their needs.

d. *A number of commenters noted that the SoP should include a shareholder democracy priority to address issues such as "say on pay" and proxy voting.*

   We continue to monitor developments in respect of shareholder democracy issues such as "say-on-pay" to determine an appropriate regulatory response. Even though this issue has not been identified as one of the OSC's key priorities work is continuing on these issues as part of individual branch business plans.

e. *Non-collection of fines and the need for expanded collections powers was raised by a number of commenters*

   The OSC views fines and penalties as a key tool in its efforts to deter misconduct and has focussed more effort on collections of OSC orders and settlements. More cases are being pursued through the Joint Serious Offences Team, and new enforcement tools such as no contest settlements are being used to obtain better outcomes for investors. The OSC also continues to seek new methods to improve collections and ultimately the deterrent effect of its actions.

   Unfortunately, there are a number of factors that impair the ability of the OSC to collect fines including the fact that sanctions are imposed that reflect the severity of the investor harm irrespective of the availability of assets to enforce against, and when dealing with fraud, assets are often non-existent or not retrievable. Despite these challenges, in the past two years the OSC's overall rate of collections has increased from 4.9% in 2014 to 15.4% and 18.6% in 2015 and 2016, respectively. While improvements in collections procedures have helped improve the results, the main reason for the increase was the nature of respondents and matters that were brought before the Commission in 2015 and 2016. In 2015-2016, respondents in three settlement agreements undertook to return $164 million to investors directly.

f. *A number of commenters want to see more done to provide protection to investors when they have suffered losses due to breaches of securities laws. There was strong support to strengthen the powers and support for entities such as OBSI and ultimately, to implement some mechanism to allow investors to seek redress and restitution from losses due to breaches of securities laws.*

   The OSC remains focused on these issues and is actively pursuing various means for effecting compensation to harmed investors. During 2015, the first file referred by the OSC to the Civil Remedies for Illicit Activities Office (CRIA) under a memorandum of understanding (MOU) arrangement was completed. This resulted in the distribution of $199,073 in frozen funds to investors. The most recently completed file resulted in a distribution of $588,420 in frozen funds to 53 investors, who each recovered 65% of their respective claims. CRIA is working on a number of other files referred by the OSC.

   An effective and fair dispute resolution system is an important component of the investor protection framework. We strongly support OBSI as the dispute resolution service and expect registrants to abide by their obligations and participate in OBSI's services in a manner consistent with their obligation to deal fairly, honestly and in good faith with their clients.

   The CSA (including the OSC) and OBSI have entered into a MOU that creates a framework for oversight of and engagement with OBSI. OBSI recently underwent an independent review of its operations and structure, as required by its MOU with the CSA. The OSC will analyze the review's findings and recommendations along with other stakeholder input in determining what steps the OSC or CSA could pursue to try to secure more positive outcomes for investors.

g. *A number of commenters noted that recent reforms have led to expansion of the exempt market and expressed concerns about the potential for investor harm. Some commenters recommended that more information be gathered about this market and urged the OSC to make additional compliance, supervision and enforcement resources available to actively monitor this market to ensure compliance with the rules and detect and resolve unintended consequences before retail investors are harmed.*

   The OSC agrees with these comments and has committed in its priorities to vigilantly monitor compliance in the newly expanded prospectus-exempt market to address these concerns.

h. *Commenters have suggested that the OSC find ways to work with the Financial Stability Board Task Force on Climate-related Financial Disclosures and consider how the OSC can encourage adoption of the Task Force's recommendations, including possible regulation of required disclosure.*

   Companies already have an obligation to disclose material environmental and governance issues. We are monitoring developments in this area and will assess whether additional disclosure may be required. This includes monitoring and commenting on the work being undertaken by the FSB's industry led Task Force, which is aiming to develop voluntary issuer standards for disclosure on climate related issues. Once our assessment has been completed, we will determine whether additional rules are required.

The OSC's primary focus continues to be effective delivery on its core regulatory work. In our SoP, we set out our highest priorities for the year noting what we will deliver under those priorities and how we will measure our performance. Many other important initiatives and issues identified for inclusion by various commenters are already addressed within individual branch business plans or will be considered for future work. In keeping with our goal to remain focused on and committed to our core work and highest priority items, we have decided that we will not be adding any additional priorities to our 2016-2017 SoP.

All of the comment letters are available on our website www.osc.gov.on.ca. The Statement of Priorities will serve as the guide for the Commission's operations. Following delivery of the Statement of Priorities to the Minister, we will also publish on our website a report on our progress against our 2015-2016 priorities.

OSC STATEMENT OF PRIORITIES
2016-2017

INTRODUCTION

We are pleased to present the Chair's Statement of Priorities for the Commission for the year commencing April 1, 2016. The *Securities Act* (Ontario) requires the Ontario Securities Commission (OSC) to publish the Statement of Priorities in its Bulletin and to deliver it to the Minister by June 30 of each year. This Statement of Priorities also supports the OSC's commitment to be both effective and accountable in delivering its regulatory services.

This Statement of Priorities sets out the OSC's strategic goals and the specific initiatives that the OSC will pursue in support of each of these goals in 2016-2017. The Statement of Priorities also describes the environmental factors that the OSC has considered in setting these goals.

OSC vision

To be an effective and responsive securities regulator – fostering a culture of integrity and compliance and instilling investor confidence in the capital markets.

OSC mandate

To provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in capital markets.

Our environment

The regulatory framework for Ontario's capital markets is designed to provide protection to investors while fostering fair and efficient capital markets. Public confidence in these markets can be affected by many factors, including the stability of the financial system, the economic health of the country and the volatility in the marketplace. The OSC is addressing a wide range of issues and risks to achieve its vision and mandate. Key challenges and issues that may influence the OSC's policy agenda, its operations and the way it uses its resources are set out below.

We engage with industry participants, investors and other regulators to understand the issues and concerns they face. Investor advocacy groups and the Investor Advisory Panel are important sources of insight to help the OSC better understand investor needs and interests. Expectations that the OSC will focus on investor protection continue to grow, and the OSC will continue to reach out and connect with these groups.

Extremely challenging market conditions are having widespread impacts on all market participants. Significant reductions in public financing activities and related filings and lower market activity levels are adversely affecting the revenues and profitability of many market participants. Falling market capitalization levels are adversely affecting our public issuers.

Changing demographics

Demographics will continue to generate a range of investor-focused issues. Disparate investor segments (e.g., seniors, millennials) interact differently in our markets, using different channels and having different investment horizons and objectives. Delivery of advice is changing as investment choices become more complex and structural shifts, such as the continuing shift from defined benefit to defined contribution pension plans, require investors to take more responsibility for investing. Evolving market channels, such as automated financial advice, are redefining the delivery of client wealth management services and the fees charged for advice.

A well-functioning investor/advisor relationship remains critical to the economic well-being of Ontarians and ultimately to achieving healthy capital markets. Globally, better alignment of the interests of firms with the expectations of investors is evolving. The newly introduced changes to the exempt market regulatory regime are expected to attract new investors to the capital markets and this will necessitate additional oversight activities to monitor market conduct, firms' compliance cultures and how advisors meet the interests of their clients.

Technological innovation

Rapidly evolving technology-enabled innovations continue to disrupt and transform our capital markets. A range of disruptive innovations have emerged. These include growth in block chain based crypto-currencies, peer-to-peer lending and other FinTech (technology facilitated financial services) innovations. FinTech has the potential to revolutionize access to capital by small businesses. Over the past few years, a number of products and business models have emerged, catering to the needs of small businesses. Larger financial institutions are trying to accelerate their transition to these new models and technologies

through acquisition. The OSC will need to closely monitor the impact of FinTech changes to determine any potential market implications and whether regulation remains effective or if regulatory changes are required.

Increased dependence on digital connectivity and data collection and analysis, creates challenges for businesses and raises potential exposure to disruptions, including cybersecurity vulnerabilities. Marketplace changes such as the speed of trading, the quality of trade executions and volatility requires us to continue to monitor the effectiveness of our market structure regulation.

Globalization

Globalization has wide-ranging impacts on Canadian capital markets. Harmonization and coordination of regulation continues to be a key focus area for the OSC, given the global connection of the markets we regulate. Mobility of capital creates a strong need for coordination with other regulators to achieve valuable regulatory alignment both domestically and around the world.

The OSC continues to play an active role in international organizations such as the International Organization of Securities Commissions (IOSCO) to influence and promote changes to international securities regulation that will benefit Ontario markets and participants. The OSC also works as part of the Canadian Securities Administrators (CSA) to harmonize rules and their application across the country to facilitate business needs. Through these efforts, the OSC works hard to have effective cross-jurisdiction enforcement activities and gain timely insight, understanding and input into emerging regulatory issues to achieve better regulatory outcomes.

Regulatory balance

Securities regulators face growing pressures to respond appropriately to market issues while avoiding over-regulation. The need for an appropriate and cost-effective regulatory framework is critical. Market participants are focused on regulatory burden as the complexity of regulatory requirements often requires more resources to comply. These challenges are made even more difficult by the growth of differently regulated investment options available to investors.

While the OSC is always focused on the need for fiscal responsibility, that focus has been magnified by the current market environment, which has impacted many market participants. The OSC will continue to try to identify opportunities to avoid or reduce undue burdens and seek opportunities to streamline regulatory measures that balance improving the fairness, efficiency and competitiveness of Ontario's capital markets while maintaining appropriate safeguards for investors.

OSC operations

A focus on our staff continues to be important for the OSC. Attracting, motivating and retaining top talent in a competitive environment is a challenge and key to delivering on our mandate. We continue to invest in data and information systems and provide the right tools and training to leverage the talents of our people. These needs will impact our budget decisions for 2016-2017 and beyond.

OSC 2016-2017 REGULATORY GOALS

1. Deliver strong investor protection – *The OSC will champion investor protection, especially for retail investors*

2. Deliver responsive regulation – *The OSC will identify important issues and deal with them in a timely way*

3. Deliver effective compliance, supervision and enforcement – *The OSC will deliver effective compliance oversight and pursue fair, vigorous and timely enforcement*

4. Promote financial stability through effective oversight – *The OSC will continue to identify, address and mitigate systemic risk and promote stability by implementing programs to effectively oversee and supervise our capital markets including the OTC derivatives market, the fixed income market, and key infrastructure entities such as clearing agencies.*

5. Be an innovative, accountable and efficient organization – *The OSC will be an innovative and efficient organization through excellence in the execution of its operations, and will demonstrate accountability in fulfilling its mandate and achieving its goals*

The OSC continues to make strong advances in moving its regulatory agenda forward and has made a number of key improvements in the way it approaches its work. The OSC is increasingly active in providing guidance to market participants and investors and in using open and consultative processes to assess and address issues. We remain focused on evidence driven policy-making.

The OSC has significantly increased its level of cooperation with many domestic entities, including the Bank of Canada, Federal Finance and the Office of the Superintendent of Financial Institutions, to achieve more harmonized and coordinated outcomes. Enforcement activity conducted with police and other enforcement bodies continues to expand, resulting in more successes across a broader range of enforcement actions and specifically in addressing fraud.

Confidence in fair and efficient markets is a prerequisite for economic growth. The OSC regulates the largest market in Canada and our actions have impacts for Ontario and the rest of Canada. The OSC is committed to promoting safe, fair and efficient markets in Ontario and has identified a broad range of initiatives to improve the regulatory framework.

ORGANIZATIONAL PRIORITIES

This Statement of Priorities is focused on our plan for 2016-2017. In several cases these initiatives are ongoing from prior years and some will not be completed within 2016-2017. Initiatives often span more than one year for various reasons, including:

- The complexity and impact of issues warrants careful analysis and review of potential options and implications
- Consultation contributes to better outcomes. Consultation does however take time and achieving national consensus for harmonized approaches is important for all
- Regulatory choices can have fundamental and profound impacts; the cost of being wrong can be very significant and the impacts on investors and industry are often significant

In some instances, specific priorities from the previous year are not carried forward in our Statement of Priorities if the remaining work is minimal, or has been integrated into our daily operations.

This document sets out the priority areas on which the OSC intends to focus its resources and actions in 2016-2017. It is important to note that the majority of OSC resources remain focused on delivering the core regulatory work (authorizations, reviews, compliance and enforcement) undertaken by the OSC to maintain high standards of regulation in Ontario's capital markets. Each of the priorities has been aligned under one of the five OSC regulatory goals.

Goal 1 – Deliver strong investor protection

Ontario investors continue to face a low interest rate environment with significant market volatility. These low rates will likely persist given weak commodity prices and subdued global growth. Older Canadians are challenged to achieve sufficient investment returns for their retirement. Investors continue to seek opportunities to achieve adequate yield on their investments or capital appreciation. This push for higher returns can expose them to investment risks, including increased leverage that can have life-changing outcomes.

The OSC is strongly committed to investor protection and is proposing a number of investor-focused initiatives. Investors need to be confident in the fairness of the market and products in which they invest. Our markets have rebounded from post-2008 levels however volatility remains a concern. Investors are placing increasing reliance on financial advisors and need to be confident that the advice they receive is appropriate and unbiased. We will continue to seek improvements to the culture of financial services businesses, including the incentive structures they use. Weak compliance systems in combination with poor compliance cultures at firms can result in inappropriate advice and unsatisfactory investor outcomes. Where successful achievement of investment objectives is not a shared goal between advisors and investors, investor trust and confidence in the financial system is lost.

The OSC is committed to achieving better alignment between the interests of investors and their advisors. The OSC has focused on collecting and undertaking research to better understand the client advisor relationship. In October 2015, the Canadian Securities Administrators (CSA) published *A Dissection of Mutual Fund Fees, Flows and Performance*, independent research prepared by Professor Douglas Cumming. Professor Cumming's research on the impacts of compensation on mutual fund sales finds that compensation can materially drive mutual fund sales, in some cases, to the detriment of the investor. In June 2015, the Brondesbury Group completed a literature review that examined whether advice and investment outcomes vary depending on whether advisors are compensated through commissions or fee-based arrangements. This research, together with other available research, industry data and feedback from stakeholder consultations and our mystery shopping initiative, will inform our deliberations and be used to support a policy recommendation on how best to move forward.

Putting the interests of investors first

Priority Issue	Implement regulatory reforms that improve the advisor/client relationship
Action Plan/ Next Steps	a. Publish and conduct consultations on proposed regulatory provisions to create a best interest standard b. Publish and conduct consultations on targeted regulatory reforms and/or guidance under NI 31-103 to improve the advisor/client relationship c. Following stakeholder consultations, develop recommendations to the Commission on regulatory reforms to improve the advisor/client relationship including an implementation plan d. Finalize analysis of advisor compensation practices and identify those practices that appear inconsistent with current regulatory expectations
Success Measures/ Expected Outcomes	a. Consultations on provisions for creating a best interest standard completed b. Consultations on proposed targeted reforms and/or guidance to NI 31-103 completed c. Recommendation presented to Commission on the regulatory reforms required to improve the advisor/client relationship. Implementation plan included d. Staff Notice summarizing compensation review findings including expectations for compliance and best practices, published

Addressing compensation arrangements in mutual funds and empowering investors through better disclosure

Priority Issue	Determine what regulatory action is needed to address embedded commissions and other types of compensation arrangements and improve retail investment product disclosure
Action Plan/ Next Steps	a. Communicate a policy direction on embedded commissions and other types of compensation arrangements b. Develop regulatory proposals that address conflicts of interest created by compensation arrangements related to investment funds c. Finalize a mandated CSA risk classification methodology to improve the comparability of risk ratings of mutual funds d. Finalize a summary disclosure document for ETFs that can be delivered to investors
Success Measures/ Expected Outcomes	a. Publication of a consultation paper including a recommendation about embedded commissions and other types of compensation arrangements b. Rules implementing a CSA risk classification methodology finalized c. Rules implementing a summary disclosure document for ETFs finalized

Increased oversight of the exempt market

Recent changes to increase access to the exempt market have expanded investment opportunities for all investors. The OSC will need to be vigilant in its oversight of these markets as they evolve under the new regulatory framework. Retail investors seeking to participate in the exempt market will need to be supported with guidance and tools to help them to understand and assess the opportunities and risks associated with these investments. The OSC will support the implementation of the expanded exempt market access through targeted outreach, oversight and supervision processes.

Priority Issue	Support investors in the expanded exempt market through effective oversight
Action Plan/Next Steps	a. Oversee market participants relying on the expanded capital raising exemptions in Ontario through a risk based supervision program for issuers, registrants and portals b. Collect and analyze data on the use of capital raising exemptions in Ontario to assess how the exemptions are being used to further capital formation
Success Measures/ Expected Outcomes	a. Risk-based supervision program for registrants, issuers and portals using the new capital-raising exemptions developed; questions included in 2016 Risk Assessment Questionnaire to gather information on the use of the new exemptions b. Emerging trends and levels of compliance identified and addressed and report on exempt market status published

Improving education, engagement and alignment with investors' interests

Investors are striving to achieve sufficient investment returns to finance lifestyle, education costs for children and retirement goals for themselves or aging parents. As investors search for yield and capital appreciation, they can become more susceptible to fraud and other investment risks that can have life-changing outcomes. These issues can be magnified when there are wide gaps in the levels of experience and financial literacy among investors. This results in different needs for support and guidance.

The growing use of behavioural nudging in designing and delivering financial services information is another area of focus. The OSC Investor Office will be working to understand how this is used in other jurisdictions to design appropriate supports for Ontario investors.

The Investor Office will be expanding and modernizing the OSC's efforts in investor engagement, research, education and outreach, to help investors to build their knowledge, understanding and confidence in planning for their investment goals and retirement finances. The Investor Office will also continue bringing new perspectives to inform OSC policy-making and operations to better align with investors' interests.

An effective and fair dispute resolution system is an important component of the investor protection framework. The Ombudsman for Banking Services and Investments (OBSI) recently underwent an independent review of its operations and structure, as required by its Memorandum of Understanding (MOU) with the CSA. The Investor Office will analyze the review's findings and recommendations along with other stakeholder input in determining what steps the OSC or CSA should consider in response.

The Investor Office will continue to seek input from investor advocacy groups, and the Investor Advisory Panel, that together with other available research, industry data and stakeholder feedback will inform its understanding of issues that are affecting investors. The Investor Office will use this information in developing tailored solutions to reach the broad range of at-risk investor groups, including seniors, millennials and new Canadians. The initiatives set out below will advance achievement of the OSC's investor protection mandate.

Priority Issue	Advance retail investor protection, engagement and education through the OSC's Investor Office
Action Plan/Next Steps	a. Improve outreach and education focused on senior and vulnerable investors and work with the Investor Advisory Panel to identify further opportunities to advance investors' interests b. Improve our understanding of investor issues and needs through targeted research, seminars and roundtables c. Enhance, expand and develop innovative tools and resources to improve OSC investor engagement and develop a framework to measure the impacts and outcomes achieved
Success Measures/ Expected Outcomes	a. Publication of research that identifies opportunities to achieve better investor outcomes through the application of behavioural finance b. Status update on the OSC's activities related to its seniors strategy published c. Status update on the OSC's work with the IAP to improve the risk profiling used in the retail investment advice process published

Goal 2 – Deliver responsive regulation

Monitor and assess the impact of recent regulatory reforms in Ontario

The OSC is committed to delivering responsive regulatory oversight to meet its mandate. The OSC believes that an "evidence-based approach" is critical to effective policy development and regulatory oversight and it is crucial to track and understand the impacts of its regulatory actions. The OSC will undertake a number of reviews of recently implemented regulatory reforms to assess whether expected results are being achieved and to identify opportunities for further regulatory changes to better achieve its regulatory objectives.

Priority Issue	Actively monitor and assess impacts of recent regulatory changes on the market to confirm that expected outcomes are being achieved
Action Plan/ Next Steps	a. Commence post-implementation analysis of the impact of the Client Relationship Model – Phase 2 (CRM2) and Point of Sale (POS) amendments b. Conduct targeted disclosure reviews to monitor the progress on corporate governance changes related to disclosure requirements for Women on Boards and in executive officer positions and determine the impact of those changes in our markets
Success Measures/ Expected Outcomes	a. Post-implementation analysis of CRM2 and POS conducted b. Review of all TSX-listed issuers to assess compliance with disclosure requirements for Women on Boards completed and published. Public focus on corporate governance changes related to this disclosure is maintained

Monitor and support market structure evolution

Our regulatory framework needs to remain current and responsive to the continuing evolution of market structures and products. The markets are increasingly complex and the pace of innovation and technological changes requires us to regularly examine our market structure framework and assess whether changes are necessary to promote market efficiencies, protect investors and maintain investor confidence.

Priority Issue	Closely monitor market structure changes and determine if additional regulatory responses are required
Action Plan/ Next Steps	Finalize the Order Protection Rule regulatory framework with the CSA including establishing a market share threshold, trading fee caps, market data methodology and speed bumps
Success Measures/ Expected Outcomes	Final Order Protection Rule framework published

Improve alignment with international standard setting

The importance of regulatory alignment both domestically and around the world continues to grow as the mobility of capital and integration of markets advances. Globalization and the sustained growth of cross border activities means that the OSC must deal with regulatory matters that have both national and international dimensions. By engaging with its international counterparts, especially through IOSCO, the OSC obtains timely insights and understanding of emerging compliance and regulatory issues to develop informed, proactive regulatory solutions, and also helps shape international standards that are aligned with the needs of our capital markets.

Priority Issue	Improve alignment with international standard setting to deliver regulatory solutions that meet the needs of Ontario's markets and participants
Action Plan/ Next Steps	a. Actively participate in IOSCO and other regulatory authorities globally to promote the development of new international standards and regulatory responses to areas including cyber resilience, resolution and recovery of CCPs, vulnerabilities in the asset management sector, the protection of client assets, and the ability of regulators to exchange information in compliance and enforcement situations

Success Measures/ Expected Outcomes	a. Our domestic regulatory framework and priorities are aligned with new international standards b. Participate in the Task Force on Market Conduct to publish a report outlining tools that regulators can use to promote appropriate conduct by market professionals

Goal 3 – Deliver effective compliance, supervision and enforcement

Effective registration and compliance oversight programs combined with timely enforcement, help to deter misconduct and non-compliance by registrants and market participants. These activities are essential to protect investors and foster trust and confidence in our capital markets.

Effective compliance and supervision remains a central focus as domestic and international regulation, guidelines and responsibilities evolve. As new obligations are implemented, we will monitor for compliance. In our core work we are relying more on trend and risk analysis and monitoring of changes in compliance. We will continue to undertake targeted compliance reviews of high risk and new registrants, including online advice and portal business models. We will also conduct targeted prospectus and continuous disclosure reviews of issuers, investment funds and structured products as they respond to market developments and product innovations, and we will publish OSC staff guidance as warranted.

We need to continue to evolve our compliance and enforcement approaches. We continue to identify serious breaches of Ontario securities law through our quasi-criminally focused Joint Serious Offences Team (JSOT) program, which is a joint enforcement effort with the RCMP and OPP. The recently proposed OSC Whistleblower program represents another new tool to deter misconduct. We are also continuing to invest in tools and technologies that will assist us to identify and assess patterns of inappropriate behaviour and complex cases.

Enhance compliance through effective inspections, supervision and oversight

Priority Issue	Protect investors and foster confidence in our markets by upholding strong standards of compliance with our regulatory framework
Action Plan/Next Steps	a. Continue effective oversight of registrants focusing on high risk and new registrants b. Assess compliance with OSC Rule 91-507 Trade Repositories and Derivatives Data Reporting c. Work closely with self-regulatory organizations (SROs) to coordinate compliance efforts on issues in common, such as sales incentives and related conflicts of interest
Success Measures/ Expected Outcomes	a. 2016 OSC Risk Assessment Questionnaire issued and findings assessed. Annual Summary Report for Dealers, Advisers and Investment Fund Managers published b. Review of large domestic derivatives dealers completed and analysis of key findings and trends identified c. Reviews finished and analysis of data completed

Actively pursue enforcement action against fraud and other serious securities law violations

Priority Issue	Actively pursue timely and impactful enforcement cases involving fraud and other serious securities laws violations
Action Plan/Next Steps	a. Based on feedback and consultations, implement OSC Whistleblower Program, assess information received and establish effective protocols and processes to begin to use this input to pursue potential cases b. Conduct collaborative investigations of fraud and recidivist cases through JSOT using the provisions of the Securities Act or the Criminal Code c. Complete the enhanced Multilateral Memorandum of Understanding to facilitate information sharing and cross-border enforcement activities

Success Measures/ Expected Outcomes	a. JSOT investigates fraud and recidivist cases and lays quasi-criminal and criminal charges. Results will be published in the annual enforcement report b. Investor protection improved through increased public awareness of fraud and other serious securities laws violations

Goal 4 – Promote financial stability through effective oversight

Global capital markets are increasingly interconnected by technology, business models and investment flows and this creates potential for systemic risk. The OSC works with other regulators to better understand points of integration and identify potential risks to monitor and mitigate.

Enhance oversight of the fixed income market

Fixed income secondary market trading is a substantial segment of our capital markets and the transparency, fairness and liquidity of these markets can affect the cost of capital. The OSC is seeking solutions to improve access, transparency and fairness in this market.

In 2015-2016 the OSC took steps to enhance regulation in the fixed income market and identify opportunities to improve market transparency. The CSA published CSA Staff Notice and Request for Comment 21-315 *Next Steps in Regulation and Transparency of the Fixed Income Market*, which set out steps to enhance regulation in the fixed income market and identify opportunities to improve market transparency to better protect investor interests. Increased transparency of this data will also allow regulators to assess this information.

Ensuring fixed income data is available to regulators and enhancing corporate debt transparency for all investors are significant first steps in modernizing the regulatory framework for the fixed income market and should improve market confidence. The OSC plans to build on this work through the initiatives set out below:

Priority Issue	Increase transparency in the fixed income market through publication of corporate debt trading data provided to the Investment Industry Regulatory Organization of Canada (IIROC)
Action Plan/Next Steps	a. Implement public transparency of fixed income trading data, specifically for corporate debt, with IIROC acting as the information processor for corporate debt b. Monitor fixed income trading data to assess the impact of transparency c. Conduct a comprehensive review of dealers' allocation practices for new debt issues
Success Measures/ Expected Outcomes	a. Increased corporate debt post trade information available for all investors b. IIROC acting as the information processor c. Review of dealers' allocation practices completed

Advance OSC systemic risk oversight and OTC derivatives regulatory regime

The OSC works with many domestic and international regulators to monitor and better understand the key components of systemic risk and how they interact. Internationally, the OSC works with the Financial Stability Board, IOSCO and others to remain abreast of emerging risks. Domestically, the OSC is connected to various regulators through the Heads of Agencies, which includes the Bank of Canada, Federal Finance and The Office of the Superintendent of Financial Institutions. These interactions improve the resilience of our markets through shared communication and understanding of areas where our regulatory responsibilities intersect.

Priority Issue	Enhance OSC systemic risk oversight
Action Plan/Next Steps	a. Work with other regulatory agencies to monitor trends and risks across various market segments and participants including: equities, fixed income, OTC derivatives, clearing agencies, derivatives dealers
Success Measures/ Expected Outcomes	a. Market data analytics capabilities related to systemic risk monitoring developed b. Participation on international and domestic committees where emerging systemic risk topics and tools are discussed and developed.

Throughout the last year, the OSC made significant progress towards implementing a trade reporting framework and gathering over-the-counter (OTC) trade data. The next steps are to better understand the data and finish the design of a regulatory framework and operational program to effectively oversee and supervise the OTC derivatives market and its participants. This must be undertaken together with our regulator partners. The OSC will continue its progress in these areas through the initiatives set out below:

Priority Issue	Continue development and implementation of OTC derivatives regulation
Action Plan/Next Steps	a. Introduce mandatory, centralized clearing for certain OTC derivatives b. Propose a registrant regulation framework for derivatives market participants c. Assess trade reporting data to identify markets trends/risks
Success Measures/ Expected Outcomes	a. Rules to introduce mandatory, centralized clearing for certain OTC derivatives finalized b. Draft rule setting out a registrant regulation framework for derivatives market participants published for comment c. OTC trade reporting compliance confirmed through on-site inspections; and systemic risks or problems identified

Enhance oversight of industry cybersecurity preparedness

Cyber-attacks are a major and growing risk for market participants and regulators. Increased dependence on digital connectivity (e.g., online banking and mobile payment systems), combined with exponential growth and reliance on data, increases exposure to disruptions, resilience and other cybersecurity issues. Event-driven algorithmic trading can potentially accelerate the speed and breadth of cybersecurity disruptions. Awareness continues to grow as high-profile events (e.g., Target, J. P. Morgan) bring the potential negative impacts into clearer focus. Cyber-attacks at a primary level can impair companies' ability to operate, and also have financial and service impacts. Perhaps more importantly, issues such as loss of business or client data and related reputational impacts can be even more damaging if they erode market confidence.

The OSC has a central role to play in assessing and promoting readiness and supporting cybersecurity resilience within the industry. While industry is already taking action to understand and mitigate cybersecurity risks, it is clear continued vigilance in this area will be required. The OSC will be undertaking initiatives to promote proper due diligence by market participants in relation to internal breaches and intrusions from external parties including:

Priority Issue	Promote cybersecurity resilience through a better understanding of the risks and greater collaboration with market participants and other regulators on risk preparedness and responsiveness
Action Plan/Next Steps	a. Improve collaboration and communication with market participants on cybersecurity issues b. Assess the level of market participant cybersecurity resilience, including measures for protection of personal investor data c. Improve market participants' understanding of OSC cybersecurity oversight activities, including providing guidance on expectations for market participants' cybersecurity preparedness
Success Measures/ Expected Outcomes	a. Notice published that sets out current OSC market participant and infrastructure oversight activities b. Protocols/thresholds for reporting and sharing information developed c. Targeted reviews of market participants to confirm their level of cybersecurity resilience, including measures for protection of personal investor data, completed d. Roundtable conducted with SRO's and industry representatives to develop opportunities for greater collaboration and improved communication on cybersecurity issues

Goal 5 – Be an innovative, accountable and efficient organization

Support successful organization change and continuity

Market participants continue to face very challenging business conditions, including competition from new business models and technology enabled service offerings. Market participants expect the OSC to use its resources efficiently. That is why improving our efficiency is a top priority, and we remain committed to improving our business capabilities and the way we work.

We are introducing process improvements and increasing the use of technology to improve our operational performance. We are continuing to mature our research and data analysis capabilities to support improved and timely identification of risks, and a more disciplined approach to identifying issues and policy development. We are also continuing to incorporate technology and more sophisticated analytical tools to improve the efficiency, quality and timeliness of enforcement, and to gather and analyze data and other information, including information required for compliance and adjudicative matters. Management and staff will continue these efforts to make the OSC a more proactive and agile securities regulator.

The OSC operates in a global environment and needs to look for the best ways to deal with the evolution of markets and products, and support capital formation in Ontario. The OSC continues to view a cooperative regulator as the best approach to enhance investor protection, foster efficient rulemaking and promote globally competitive markets in Canada. This approach also provides greater capacity to identify and manage systemic risk and solidify Canada's international reputation for regulating its financial system. The OSC is committed to working with the participating jurisdictions to transition to the Cooperative Capital Markets Regulatory System. Throughout this process the OSC will remain focused on maintaining high standards of regulation and on keeping stakeholders informed and engaged. The OSC will also continue to work with the CSA to seek harmonized approaches to regulation as much as possible.

Priority Issue	Enhance OSC business capabilities and foster a dynamic, supportive and attractive workplace
Action Plan/Next Steps	a. Continue to develop data collection, management and assessment practices b. Continue to integrate economic analysis, research and data analysis within the OSC, and specifically in the policy development process c. Improve regulatory capacity through the development of people and expertise; employees are provided with access to information, tools and resources to enable them to carry out their accountabilities effectively during organizational change and transition
Success Measures/ Expected Outcomes	a. Use of research reflected consistently in OSC policy initiatives and OSC publications b. Research and analysis of the adoption of new prospectus exemptions completed c. Retention and turnover levels maintained within target ranges

2016-2017 FINANCIAL OUTLOOK

OSC Revenues and surplus

The OSC is forecasting 2016-2017 revenues to remain consistent with 2015-2016 actual revenues. The forecast reflects fee rates set out in the OSC's fee rules (13-502 and 13-503), which became effective April 6, 2015. In 2015-2016, the first year that the most recent changes to the fee rules took effect, total fees increased by 12.5% over 2014-2015 revenues as we began to use the most recent financial year information, as opposed to a reference fiscal year in calculating participation fees. We expect fee revenues to remain consistent because 2016-2017 participation fees will be calculated using the same methodology used in 2015-2016.

The OSC expects to generate a surplus of $4.4 million in 2016-2017 to add to its expected 2015-2016 ending surplus of $29.2 million, for a total surplus of $33.6 million as at March 2017. When the new fee rules were developed and published, the OSC advised that they would be relatively revenue neutral over the three-year period, with an expected surplus in 2015-2016, a smaller surplus in 2016-2017 and a deficit in 2017-2018. This is because revenues are expected to be relatively flat over the term of the rule, while expenses are expected to increase each year. The budget approved by the OSC Board for 2016-2017 is in line with this expectation. However, actual expenses for each of 2014-2015 and 2015-2016 were lower than projected. As a result, the above-noted ending general surplus is expected to be $30 million by the end of 2017-2018, assuming that there is no significant growth or deterioration in the markets. The ending surplus will be taken into account when fee rates are reviewed and a new fee rule is implemented beginning in the 2019 fiscal year.

2016-2017 Budget approach

Our regulatory framework needs to remain current and responsive to the continuing evolution of market structures and products and supportive of capital formation in Ontario. The OSC must carefully balance the desire to improve access to capital with the need to retain appropriate investor protections. The 2016–2017 SoP sets out the OSC's key priorities to meet these challenges. Achievement of these priorities is a key driver of the increases to the 2016–2017 OSC budget as this will require focused investments in the following areas:

- improving education, outreach and advocacy through the continued work of the Investor Office
- operationalizing the Whistleblower program
- implementation of a new regulatory framework (including supervision and oversight) for the derivatives market and the exempt market
- improving the OSC's information technology, in particular to support a greater reliance on data and research
- improving information security awareness for the OSC

The budget reflects an increase in expenses of 4.1% from the 2015-2016 budget and 10.1% from actual 2015-2016 spending. Salaries and benefits, which comprise $83.5 million or 74.5% of the budget, represent an increase of $4.3 million or 5.5% over 2015-2016 spending. The key reasons for this increase are:

- approval of new positions to support the investments noted above
- the impact of the full year costs of the positions filled in the prior year, many of which were filled later in the year

The OSC will maintain fiscal responsibility in its other operating areas as evidenced by the underspending noted in the prior year and the fact that budget amounts will decrease, or remain flat in approximately 50% of its operating branches. The budget also includes the cost of the resources relating to the implementation of the CMRA.

The capital budget, although relatively flat as compared to 2015–2016 spending, primarily reflects the cost to support the OSC's information technology needs, in particular a significant data management project. The budget also includes a refresh of the OSC's computers and laptops.

Excess/Deficiency of Revenues over Expenses (in thousands)	2015-16 Actual	2016-17 Budget	Year Over Year Change +/-	
Revenues	$116,849	$116,522	-$327	-0.28%
Expenses	$101,860	$112,141	$10,281	10.09%
Excess of Revenues over Expenses	$14,989	$4,381	-$10,608	-71%
Capital Expenditure	$3,058	$2,989	-$69	-2.26%

1.1.2 OSC Staff Notice 23-704 – Compliance with National Instrument 23-103 Electronic Trading and Direct Access to Marketplaces

OSC STAFF NOTICE 23-704

COMPLIANCE WITH NATIONAL INSTRUMENT 23-103
ELECTRONIC TRADING AND DIRECT ACCESS TO MARKETPLACES

Purpose of Notice

Staff of the Market Regulation Branch conducted a review of marketplaces' compliance with the applicable requirements of National Instrument 23-103 *Electronic Trading and Direct Access to Marketplaces* (NI 23-103) (Review) which came into force on March 1, 2013. This staff notice summarizes our findings and reminds marketplaces of their obligations under NI 23-103.

Background

Part 4 of NI 23-103 sets out the requirements applicable to marketplaces relating to electronic trading. The Companion Policy to NI 23-103 (23-103CP) further clarifies the requirements and expectations of marketplaces.

Part 4 of NI 23-103 requires marketplaces to:

- provide marketplace participants with reasonable access to their order and trade information to enable them to implement the risk management and supervisory controls, policies and procedures they must maintain in order to meet their own obligations set out in NI 23-103;
- ensure they have the ability and authority to terminate all, or a portion, of the access provided to a marketplace participant;
- regularly assess and document whether they require any risk management and supervisory controls, policies and procedures in addition to those that marketplace participants are required to have;
- regularly assess and document the adequacy and effectiveness of such additional risk management and supervisory controls, policies and procedures, and promptly remedy any deficiencies[1]; and
- prevent the execution of orders outside the thresholds set by the regulation services provider or the marketplace itself, as applicable.

Part 4 of NI 23-103 also confirms the process for the cancellation, variation or correction of clearly erroneous trades.

Objectives of the Review

The specific objectives of the Review were to assess marketplaces' compliance with the applicable requirements set out in NI 23-103.

In addition, since IIROC Notice 15-0186 *Guidance on Marketplace Thresholds*, published on August 25, 2015, will establish the operation of price thresholds beyond which orders must be prevented from trading, as required by NI 23-103, we also enquired about marketplaces' readiness for compliance with these thresholds.

Summary of Findings

Overall, we found that marketplaces were compliant with most provisions of NI 23-103. For example, each marketplace:

- demonstrated it had the ability and authority to provide its marketplace participants with access to their order and trade information;
- had the ability to terminate all, or a portion, of the access provided to its marketplace participants; and
- demonstrated it had the ability to cancel, vary or correct trades, in accordance with the process set out in NI 23-103.

[1] 23-103CP clarifies that a regular assessment would constitute, at a minimum, an assessment conducted annually and whenever a substantive change to a marketplace's operations, rules, controls, policies or procedures that relate to electronic trading is made.

In addition, all marketplaces demonstrated a general understanding of their marketplace participants' risk management and supervisory controls, policies and procedures and provided information about their own controls, policies and procedures.

We did find, however, that not all marketplaces had documentation evidencing that they conducted regular assessments of whether they required risk management and supervisory controls, policies and procedures in addition to those that their marketplace participants are required to maintain. As such, we could not verify, in some cases, the steps taken by the marketplaces to conduct such assessments. Subsequent to the formal review, all marketplaces confirmed their approach and provided the necessary documentation evidencing their review.

Staff Views

Marketplaces are required to conduct assessments of their marketplace participants' risk management and supervisory controls, policies and procedures on a regular basis. These assessments are necessary to ensure that marketplaces continue to have an understanding of their marketplace participants' current controls, policies and procedures, so that they can determine whether there are any deficiencies in the control framework that need to be addressed.

As noted above, 23-103CP clarifies that the expectation of marketplaces is to conduct these assessments, at a minimum, on an annual basis or whenever a substantive change to a marketplace's operations, rules, controls, policies or procedures that relate to electronic trading is made. Marketplaces, however, should conduct such assessments more frequently if they deem it necessary. 23-103CP provides examples of instances where more frequent assessments should be conducted.

The results of such assessments must be documented and the documentation must be maintained as required by the recordkeeping requirements for marketplaces set out in Part 11 of National Instrument 21-101 *Marketplace Operation*.

We will continue to review marketplaces' compliance with the requirements in NI 23-103 on a regular basis as part of our ongoing oversight of marketplaces' trading activities.

Questions

Please refer your questions to any of the following:

Barb Majerski
Legal Counsel
Ontario Securities Commission
bmajerski@osc.gov.on.ca

Ruxandra Smith
Senior Accountant
Ontario Securities Commission
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1.1.3 Notice of Ministerial Approval of Amendments to NI 45-106 Prospectus Exemptions

NOTICE OF MINISTERIAL APPROVAL OF AMENDMENTS TO
NATIONAL INSTRUMENT 45-106 *PROSPECTUS EXEMPTIONS*

June 9, 2016

On May 27, 2016, the Minister of Finance approved amendments made by the Ontario Securities Commission (**OSC** or **Commission**) to National Instrument 45-106 *Prospectus Exemptions* (the **NI 45-106 Amendments**) and amendments to other instruments that are consequential to the NI 45-106 Amendments (the **Consequential Amendments**).

The NI 45-106 Amendments introduce a new harmonized report of exempt distribution.

The NI 45-106 Amendments and the Consequential Amendments are referred to collectively as the Rule Amendments and include amendments to the following instruments:

- OSC Rule 11-501 *Electronic Delivery of Documents to the Ontario Securities Commission*
- OSC Rule 13-502 *Fees*, and
- OSC Rule 45-501 *Ontario Prospectus and Registration Exemptions*.

The Rule Amendments were made by the Commission on March 22, 2016. On March 22, 2016, the Commission also adopted changes to Companion Policy 45-106CP *Prospectus Exemptions* (the **Policy Changes**, and together with the Rule Amendments, the **Amendments**).

The Amendments were published on the OSC website at http://www.osc.gov.on.ca and in the OSC Bulletin in (2016), 39 OSCB 3286 on April 7, 2016.

The Amendments come into force in Ontario on June 30, 2016.

The text of the Amendments is set out in Chapter 5 of this Bulletin.

1.3 Notices of Hearing with Related Statements of Allegations

1.3.1 Aouad Choufi – ss. 127(1), 127(10)

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

AND

IN THE MATTER OF
AOUAD CHOUFI

NOTICE OF HEARING
(Subsections 127(1) and 127(10) of the Securities Act)

TAKE NOTICE THAT the Ontario Securities Commission (the "Commission") will hold a hearing pursuant to subsections 127(1) and 127(10) of the *Securities Act*, RSO 1990, c S.5 (the "Act"), at the offices of the Commission, 20 Queen Street West, 17th Floor, commencing on June 20, 2016 at 10:00 a.m., or as soon thereafter as the hearing can be held;

TO CONSIDER whether, pursuant to subsection 127(1) and paragraph 5 of subsection 127(10) of the Act, it is in the public interest for the Commission to make an order:

1. against Aouad Choufi ("Choufi") that:

    a. trading in any securities or derivatives by Choufi cease until February 10, 2022, pursuant to paragraph 2 of subsection 127(1) of the Act, except that he may:

        i. trade in and/or purchase securities or derivatives through a registrant who has been given a copy of the Settlement Agreement and Undertaking between Choufi and the Alberta Securities Commission dated February 10, 2016 (the "Settlement Agreement"), and a copy of the Order of the Commission in this proceeding, if granted, using one Registered Retirement Savings Plan account, one Registered Education Savings Plan, and one Locked in Retirement Account;

        ii. participate in Kelt Exploration Ltd.'s Incentive Stock Option Plan and Restricted Share Unit Plan; and

        iii. purchase securities in an issuer whose securities are not distributed to the public; and

2. such other order or orders as the Commission considers appropriate.

BY REASON of the allegations set out in the Statement of Allegations of Staff of the Commission dated June 1, 2016, and by reason of the Settlement Agreement, and such additional allegations as counsel may advise and the Commission may permit;

AND TAKE FURTHER NOTICE that at the hearing on June 20, 2016 at 10:00 a.m., Staff will bring an application to proceed with the matter by written hearing, in accordance with Rule 11 of the Ontario Securities Commission's *Rules of Procedure* (2014), 37 OSCB 4168 and section 5.1 of the *Statutory Powers Procedure Act*, RSO 1990, c S.22, and any party to the proceeding may make submissions in respect of the application to proceed by written hearing;

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

AND TAKE FURTHER NOTICE that upon failure of any party to attend at the time and place aforesaid, the hearing may proceed in the absence of the 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 plut 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 2nd day of June, 2016.

“Josée Turcotte”
Secretary to the Commission

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

AND

IN THE MATTER OF
AOUAD CHOUFI

STATEMENT OF ALLEGATIONS OF
STAFF OF THE ONTARIO SECURITIES COMMISSION

Staff of the Ontario Securities Commission ("Staff") allege:

I. OVERVIEW

1. On February 10, 2016, Aouad Choufi ("Choufi" or the "Respondent") entered into a Settlement Agreement and Undertaking with the Alberta Securities Commission (the "ASC") (the "Settlement Agreement").

2. Pursuant to the Settlement Agreement, Choufi agreed to certain undertakings and to be made subject to sanctions, conditions, restrictions or requirements within the province of Alberta.

3. Staff are seeking an inter-jurisdictional enforcement order reciprocating the Settlement Agreement, pursuant to paragraph 5 of subsection 127(10) of the Ontario *Securities Act*, RSO 1990, c S.5 (the "Act").

II. THE ASC PROCEEDINGS

Agreed Facts

4. In the Settlement Agreement, Choufi agreed with the following facts:

Parties

5. Choufi is a Calgary, Alberta resident. At all material times, he was employed by Kelt Exploration Ltd. ("Kelt") in the position of Exploitation Engineer.

6. Kelt is a publically traded oil and gas producing company, whose shares are listed for trading on the Toronto Stock Exchange (the "TSX"). Kelt's head office is in Calgary.

7. Artek Exploration Ltd. ("Artek"), as of February 2015, was a publically traded oil and gas producing company with shares listed for trading on the TSX. Its head office was in Calgary. Kelt completed the acquisition of all of the issued and outstanding common shares of Artek on April 16, 2015, and Artek was delisted from the TSX on April 21, 2015.

Circumstances

<u>February 23, 2015, Announcement</u>

8. On Monday, February 23, 2015, at 7 a.m. EST (the "February 23 Announcement"), Artek/Kelt announced that Artek had entered into an arrangement with Kelt pursuant to which Kelt had agreed to acquire all of the issued and outstanding common shares of Artek (the "Agreement").

9. Under the terms of the Agreement, Artek shareholders were to receive 0.34 common shares of Kelt for each Artek share held. Based on an average trading price of $8.10 per Kelt share, this represented a value per Artek share of $2.76. The $2.76 price per Artek share was a 61% premium to its then average trading price.

<u>The Material Facts</u>

10. On January 28, 2015, the President and CEO of Kelt met with the President and CEO of Artek, and Kelt asked if Artek would consider being acquired by Kelt.

11. On February 9, 2015, mutual confidentiality agreements were circulated between the two companies. That same day, the Kelt board of directors implemented an immediate blackout – prohibiting trading in Artek by all individuals at Kelt with knowledge of the proposed Agreement.

12. On February 11, 2015, a non-binding letter of intent regarding the proposed Agreement was delivered by Kelt to Artek.

13. On February 12, 2015, Choufi was made aware of the negotiations and possible Agreement between Artek and Kelt.

14. On February 19, 2015, Choufi provided an overview of Artek's petroleum and natural gas reserves to an independent committee formed at Kelt to consider the transaction.

Trading in Artek and Tipping Others

15. The Investment Industry Regulatory Organization of Canada ("IIROC") was alerted to an unusual upwards price movement and an increase in the trading volume of Artek shares prior to the February 23 Announcement. IIROC referred the matter to the ASC for investigation.

16. At or around the time of the referral, IIROC received a "Gatekeeper Report" from TD Waterhouse Canada Inc.'s trading surveillance department ("TD Waterhouse"). The TD Waterhouse Gatekeeper Report was in regards to suspicious purchases of Artek shares by its client, Choufi, on February 19 and February 20, 2015.

17. Choufi admits that as at February 19, 2015:

    a. he was in a special relationship with Artek due to his position at Kelt and his knowledge of the negotiations and possible Agreement;

    b. he knew that the possible Agreement had not been generally disclosed; and

    c. he knew that the possible Agreement was a material fact with respect to Artek.

18. On February 19 and 20, 2015, and with this knowledge, Choufi:

    a. purchased 26,823 shares of Artek in his direct investment accounts at TD Waterhouse at an average price per share of $1.695; and

    b. purchased 25,700 Artek shares for the benefit of and through the account of another person, at a cost of approximately $42,531.

19. At market close on February 23, 2015, one full day of trading following the February 23 Announcement, and using a closing price for Artek of $2.61, a profit before commission of $24,496 would have resulted from the sale of the Artek shares in Choufi's account, and a profit of $24,546 from the sale of Artek shares in the other person's account.

20. Choufi admits that in addition to his own trading in Artek shares, he also informed an acquaintance of his in Edmonton of the negotiations and possible Agreement prior to the February 23 Announcement (the "Tippee"). Choufi was unaware at the time, but is advised and has no reason to dispute, that the Tippee purchased 41,500 shares of Artek through a numbered company on February 20, 2015, at a cost of approximately $70,000. These shares were sold days later on February 23 and 25, 2015, for a profit before commissions of $39,868.

Admitted Breaches of Alberta Securities Laws

21. Based on the Agreed Facts, Choufi admits he:

    a. breached section 147(3) of the Alberta *Securities Act*, RSA 2000, c S-4 (the "Alberta Act") by purchasing shares of Artek, while in a special relationship with it, and with knowledge of a material fact with respect to Artek that had not been generally disclosed;

    b. breached section 147(4) of the Alberta Act by informing another person, while in a special relationship with Artek, of a material fact with respect to Artek that had not been generally disclosed; and

    c. acted contrary to the public interest in his actions described within the Agreed Facts.

The Settlement Agreement and Undertakings

22. Pursuant to the Settlement Agreement, Choufi agreed to certain undertakings and to be made subject to sanctions, conditions, restrictions or requirements within the province of Alberta. Choufi agreed and undertook to:

i. pay to the ASC a monetary settlement of $36,744, representing 1.5 times the profit or expected profit from the trading in his own account;

ii. pay to the ASC as disgorgement the sum of $24,546, representing the profit or expected profit from his trading through the other's account;

iii. pay to the ASC the sum of $15,000 for costs of the ASC's investigation;

iv. cease trading in securities for a period of 6 years, except that he may:

1. trade in and/or purchase securities or derivatives through a registrant who has been given a copy of the Settlement Agreement, using one Registered Retirement Savings Plan account, one Registered Education Savings Plan, and one Locked in Retirement Account;

2. participate in Kelt's Incentive Stock Option Plan and Restricted Share Unit Plan; and

3. purchase securities in an issuer whose securities are not distributed to the public;

v. cooperate with ASC Staff in their investigation of, and the conclusion of any allegations made against, the Tippee.

III. JURISDICTION OF THE ONTARIO SECURITIES COMMISSION

23. In the Settlement Agreement, the Respondent agreed to be made subject to sanctions, conditions, restrictions or requirements within the province of Alberta.

24. Pursuant to paragraph 5 of subsection 127(10) of the Act, an agreement with a securities regulatory authority, derivatives regulatory authority or financial regulatory authority, in any jurisdiction, to be made subject to sanctions, conditions, restrictions or requirements on the person or company may form the basis for an order in the public interest made under subsection 127(1) of the Act.

25. Staff allege that it is in the public interest to make an order against the Respondent.

26. Staff reserve the right to amend these allegations and to make such further and other allegations as Staff deem fit and the Commission may permit.

27. Staff request that this application be heard by way of a written hearing pursuant to Rules 2.6 and 11 of the Ontario Securities Commission's *Rules of Procedure*.

DATED at Toronto, this 1st day of June, 2016.

1.3.2 Andrei Miguel Postrado – ss. 127, 127.1

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

AND

IN THE MATTER OF
ANDREI MIGUEL POSTRADO

NOTICE OF HEARING
(Pursuant to sections 127 and 127.1 of the Securities Act)

TAKE NOTICE that the Ontario Securities Commission (the "Commission") will hold a hearing pursuant to sections 127 and 127.1 of the *Securities Act*, RSO 1990, c S.5 (the "Act"), at the offices of the Commission located at 20 Queen Street West, Toronto, 17th Floor, commencing on Wednesday, June 8, 2016 at 10:00 a.m. or 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 to approve the Settlement Agreement dated June 2, 2016, between Staff of the Commission ("Staff") and Andrei Miguel Postrado;

BY REASON OF the allegations set out in the Statement of Allegations of Staff dated June 3, 2016, 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 a representative at the hearing;

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

DATED at Toronto this 3rd day of June, 2016.

"Josee Turcotte"
Secretary to the Commission

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

AND

IN THE MATTER OF
ANDREI MIGUEL POSTRADO

STATEMENT OF ALLEGATIONS OF
STAFF OF THE ONTARIO SECURITIES COMMISSION

Staff of the Ontario Securities Commission ("Staff") make the following allegations:

(a) Overview

1. Between June 9, 2015 and September 2, 2015 (the "Relevant Period"), Andrei Miguel Postrado ("Andrei") engaged in tipping and insider trading contrary to subsections 76(2) and 76(1) of the *Securities Act*, RSO 1990, c S.5, (the"Act") respectively.

2. Andrei was employed in the real estate and construction tax department at KPMG LLP (Canada) ("KPMG"). Andrei obtained confidential undisclosed material information at KPMG respecting three reporting issuers: Company "A", Company "B", and Company "C" (the "Reporting Issuers"). Andrei purchased securities of the Reporting Issuers while possessed of undisclosed material information.

3. The undisclosed material information respecting the Reporting Issuers was that each of the Reporting Issuers was going to be bought by another entity.

4. Andrei was a person in a special relationship to the Reporting Issuers as a result of his employment with KPMG.

5. Andrei purchased securities of the Reporting Issuers in advance of the public announcement of certain merger and acquisition ("M&A") transactions respecting the Reporting Issuers in online discount brokerage accounts with BMO InvestorLine ("BMO") and Questrade Inc. ("Questrade"). After the public announcement of the M&A transactions, Andrei sold the securities of the Reporting Issuers to earn a profit in his accounts of $200,375.

6. Andrei also conveyed the undisclosed material information to his father, Fernando Postrado ("Fernando").

(b) The Respondent

7. Andrei is 28 years of age. He lives in Toronto. He was hired by KPMG in August 2014 in the real estate and construction industry tax department. He started at the entry-level position referred to as the technician level. His responsibilities were to prepare simple tax returns for corporate clients.

(c) KPMG

8. The KPMG real estate and construction industry tax department provides tax advice to clients in the real estate and construction industry. This includes providing advice to clients involved in M&A transactions. When a client retains KPMG's tax department to provide tax advice on an M&A transaction, the department opens an electronic file respecting the client. The file may be accessed by employees of the tax department unless access to the file is restricted because of potential conflicts. When the tax department is retained by a client on an M & A transaction, a deal team is formed to work on the transaction.

9. During the Relevant Period, the KPMG tax department was retained by clients respecting the M&A transactions involving the Reporting Issuers. Electronic files were opened. Deal teams were formed to work on the transactions.

10. Andrei was not assigned to any of the deal teams involving the transactions respecting the Reporting Issuers.

(d) Trading in Reporting Issuers

(i) Trading in Company A

11. In June 2015, Andrei overheard a conversation between a manager and a partner in the tax department at KPMG. During this conversation, they were discussing the due diligence being done on Company "A". As a result of overhearing the conversation, Andrei believed that Company "A" was about to be acquired.

12. On June 9, 2015, Andrei opened his BMO account. On June 16 and June 17, he purchased 2,500 shares of Company "A" at a cost of $23,750. Between June 11 and June 15, Andrei deposited $10,750 in cash into his BMO account and funded the remainder of his Company "A" share purchase on margin.

13. Andrei possessed undisclosed material information at the time he purchased the Company "A" shares in his BMO account.

14. Shortly after Andrei purchased the shares of Company "A" in his BMO account, Company "A" announced that it had entered into an arrangement to be acquired for approximately $12 per share, an increase of approximately $2.50 per share from its closing price on June 17, 2015. KPMG was first aware of the transaction on or about May 15, 2015.

15. Andrei sold his entire position on June 19, 2015 at $12.50 per share. He earned a profit of $6,375.

(ii) Trading in Company "B"

16. In late June or early July, 2015, Andrei accessed the electronic client file respecting the acquisition of Company "B". Andrei reviewed documents contained in the electronic file which made him believe that Company "B" was about to be acquired.

17. On July 10, 2015, Andrei opened his Questrade account. Between July 17, 2015 and July 29, 2015, Andrei purchased and sold units of Company "B" in his BMO and Questrade accounts. Andrei obtained cash advances on three TD Visa cards totalling $11,900 which he deposited into his Questrade account. In total, Andrei purchased 21,945 Company "B" shares at a cost of $176,472 in his Questrade and BMO accounts.

18. Andrei purchased the shares of Company "B" in his BMO and Questrade accounts with knowledge of the undisclosed material fact that Company "B" was about to be acquired.

19. In early August, 2015, Company "B" announced that it had entered into an arrangement to be acquired. On August 7, 2015, Company "B" closed at approximately $7.75. On the day of the announcement, Company "B" closed at approximately $8.10 per unit. Andrei sold 500 shares of Company "B" from his Questrade Account in July, prior to the public announcement.

20. Following the announcement in early August, 2015, Andrei sold his entire position for $168,550. He lost approximately $4,000.

(iii) Trading in Company "C"

21. In July, 2015, Andrei overheard a conversation between a manager and partner about the due diligence being done on Company "C". As a result of the conversation he overheard, Andrei believed Company "C" was about to be acquired.

22. Between August 17, 2015 and August 19, 2015, Andrei acquired 19,000 shares for approximately $159,000 at an average price of $8.36 per share. These purchases were made in his Questrade and BMO accounts on margin.

23. Andrei purchased the shares of Company "C" in his BMO and Questrade accounts with knowledge of the undisclosed material fact that Company "C" was about to be acquired.

24. In early September, 2015, Company "C" announced that it had agreed to be acquired at approximately $18.75 per share. The Company "C" share price rose from approximately $8.80 to approximately $18.50 per share, following the early September 2015 takeover announcement.

25. On the day of the takeover announcement in early September 2015, Andrei sold his position in Company "C" in both his BMO and Questrade accounts for approximately $353,000. He earned a profit of approximately $194,000.

(e) Andrei tipped Fernando

26. Andrei conveyed the information he had obtained with respect to Company "B" and Company "C" to Fernando. He told Fernando that he believed that Company "B" and Company "C" were about to be acquired based on what he heard at work.

27. Andrei was aware that Fernando purchased securities of Company "B" and Company "C" while possessed of the undisclosed material information that Company "B" and Company "C" were about to be acquired which Andrei had conveyed to him.

(f) Conduct contrary to Ontario securities law and contrary to the public interest

28. By purchasing securities of the Reporting Issuers while possessed with knowledge of undisclosed material information respecting the Reporting Issuers while in a special relationship with the Reporting Issuers, Andrei engaged in insider trading contrary to subsection 76(1) of the Act. By conveying the knowledge that Company "B" and Company "C" were about to be acquired, Andrei tipped Fernando contrary to subsection 76(2) of the Act. By engaging in insider trading and tipping, Andrei acted contrary to the public interest.

29. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

Dated at Toronto, this 3rd day of June, 2016

1.5 Notices from the Office of the Secretary

1.5.1 Randy Zenovi Calmusky

FOR IMMEDIATE RELEASE
June 3, 2016

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

AND

IN THE MATTER OF
RANDY ZENOVI CALMUSKY

TORONTO – The Commission issued an Order pursuant to Subsections 127(1) and 127(10) of the *Securities Act* in the above noted matter.

A copy of the Order dated June 3, 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 Aouad Choufi

FOR IMMEDIATE RELEASE
June 3, 2016

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

AND

IN THE MATTER OF
AOUAD CHOUFI

TORONTO – The Office of the Secretary issued a Notice of Hearing on June 2, 2016 setting the matter down to be heard on June 20, 2016 at 10:00 a.m. or as soon thereafter as the hearing can be held in the above named matter. The hearing will be held at the offices of the Commission at 20 Queen Street West, 17th Floor, Toronto.

A copy of the Notice of Hearing dated June 2, 2016 and Statement of Allegations of Staff of the Ontario Securities Commission dated June 1, 2016 are available at www.osc.gov.on.ca.

OFFICE OF THE SECRETARY
JOSÉE TURCOTTE
SECRETARY

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media_inquiries@osc.gov.on.ca

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1.5.3 Andrei Miguel Postrado

FOR IMMEDIATE RELEASE
June 3, 2016

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

AND

IN THE MATTER OF
ANDREI MIGUEL POSTRADO

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 Andrei Miguel Postrado.

The hearing will be held on June 8, 2016 at 10:00 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 June 3, 2016 and Statement of Allegations of Staff of the Ontario Securities Commission dated June 3, 2016 are available at www.osc.gov.on.ca.

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Chapter 2

Decisions, Orders and Rulings

2.1 Decisions

2.1.1 RP Investment Advisors and RP Strategic Income Plus Fund

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – relief from certain specified derivatives and custodial requirements to permit mutual funds to enter into swap transactions that are cleared through a clearing corporation – relief required because of U.S. and European requirements to clear over-the-counter derivatives including swaps – decision treats cleared swaps similar to other cleared derivatives.

Applicable Legislative Provisions

National Instrument 81-102 Investment Funds, ss. 2.7(1), (4),6.1(1), 19.1.

May 31, 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
RP INVESTMENT ADVISORS
(the Filer),
THE RP STRATEGIC INCOME PLUS FUND
(the RP Fund)

AND

ALL FUTURE MUTUAL FUNDS MANAGED BY THE FILER THAT ENTER INTO SWAPS
(as defined below) (each, a Future Fund and, together with the RP Fund, the Funds)

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**), pursuant to section 19.1 of National Instrument 81-102 *Investment Funds* (**NI 81-102**) exempting the Funds from:

(a) the following requirements to permit each Fund to enter into cleared Swaps, as further described below:

(i) the requirement in subsection 2.7(1) of NI 81-102 that a mutual fund must not purchase an option or a debt-like security or enter into a swap or a forward contract unless, at the time of the transaction, the option, debt-like security, swap or contract has a designated rating or the equivalent debt of the counterparty, or of a person or company that has fully and unconditionally guaranteed the obligations of the counterparty in respect of the option, debt-like security, swap or contract, has a designated rating;

(ii) the requirement in subsection 2.7(4) of NI 81-102 that the mark-to-market value of the exposure of a mutual fund under its specified derivatives positions with any one counterparty other than an acceptable clearing corporation or a clearing corporation that clears and settles transactions made on a futures exchange listed in Appendix A to NI 81-102 shall not exceed, for a period of 30 days or more, 10 percent of the net asset value of the mutual fund; and

(b) the requirement in subsection 6.1(1) of NI 81-102 that all portfolio assets of an investment fund be held under the custodianship of one custodian to permit each Fund to deposit cash and other portfolio assets as margin directly with a Futures Commission Merchant (as defined below) and indirectly with a Clearing Corporation (as defined below) in connection with entering into the cleared Swaps, as further described below

(the **Requested Relief**).

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 each of the other provinces and territories of Canada (the **Other Jurisdictions** and collectively with Ontario, the **Jurisdictions**).

Interpretation

Terms defined in NI 81-102, National Instrument 14-101 *Definitions*, and MI 11-102 have the same meaning if used in this decision, unless otherwise defined. The following terms used in this decision have the following meanings:

CFTC means the U.S. Commodity Futures Trading Commission

Clearing Corporation means any clearing organization registered with the CFTC or central counterparty authorized by ESMA, as the case may be, that, in either case, is also permitted to operate in the Jurisdiction or the Other Jurisdiction, as the case may be, where the Fund is located

Dodd-Frank means the Dodd-Frank Wall Street Reform and Consumer Protection Act

EMIR means the European Market Infrastructure Regulation

ESMA means the European Securities and Markets Authority

European Economic Area means all of the European Union countries and also Iceland, Liechtenstein and Norway

Futures Commission Merchant means any futures commission merchant that is registered with the CFTC and/or clearing member for purposes of EMIR, as applicable, and is a member of a Clearing Corporation

OTC means over-the-counter

Portfolio Advisor means each of the Filer, each affiliate of the Filer and each third party portfolio manager retained from time to time by the Filer to manage the investment portfolio of one or more Funds

Swaps means the swaps that are, or will become, subject to a clearing determination or a clearing obligation issued by the CFTC or ESMA, as the case may be, including fixed-to-floating interest rate swaps, basis swaps, forward rate agreements in U.S. dollars, the Euro, Pounds Sterling or the Japanese Yen, overnight index swaps in U.S. dollars, the Euro and Pounds Sterling and untranched credit default swaps on certain North American indices (CDX.NA.IG and CDX.NA.HY) and European indices (iTraxx Europe, iTraxx Europe Crossover and iTraxx Europe HiVol) at various tenors

U.S. Person has the meaning attributed thereto by the CFTC

Representations

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

The Filer and the Funds

1. The Filer is a partnership established under the laws of Ontario with its head office in Toronto, Ontario.

2. The Filer is registered as an investment fund manager, portfolio manager, commodity trading manager and exempt market dealer in the Province of Ontario. The Filer is also registered as an investment fund manager, portfolio manager and exempt market dealer in the Province of Québec, as an investment fund manager and exempt market dealer in the Province of Newfoundland and Labrador, and as an exempt market dealer in each of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Nova Scotia.

3. The Filer is the investment fund manager and portfolio manager of the RP Fund and will be the investment fund manager and portfolio manager of each Future Fund. The Filer may engage one of its affiliates or a third party portfolio manager as the sub-advisor to certain of the Funds from time to time.

4. The RP Fund is, and each Future Fund will be, a mutual fund created under the laws of the Province of Ontario, subject to the provisions of NI 81-102.

5. The securities of the RP Fund are, and the securities of each Future Fund will be, qualified for distribution pursuant to a prospectus prepared and filed in accordance with the securities legislation of the Jurisdictions. Accordingly, the RP Fund is, and each Future Fund will be, a reporting issuer or the equivalent in each Jurisdiction.

6. Neither the Filer nor the Funds are, or will be, in default of securities legislation in any Jurisdiction.

Cleared Swaps

7. The investment objective and investment strategies of the RP Fund permit, and the investment objective and investment strategies of each Future Fund will permit, the Fund to enter into derivative transactions, including Swaps. The Portfolio Advisor for the RP Fund considers Swaps to be an important investment tool to properly manage the RP Fund's portfolio.

8. Dodd-Frank requires that certain OTC derivatives be cleared through a Futures Commission Merchant at a Clearing Corporation, as recognized by the CFTC. Generally, where one party to a Swap is a U.S. Person, that Swap must be cleared.

9. EMIR also requires that certain OTC derivatives be cleared through a central counterparty authorized to provide clearing services for purposes of EMIR. Generally, where one party to a Swap is a financial counterparty or a non-financial counterparty whose OTC derivative trading activity exceeds a certain threshold, in each case established in a state that is a participant in the European Economic Area, that Swap will be required to be cleared. The first clearing directive has been issued in respect of certain interest rate swaps and will be phased-in based on the category of both parties to the trade.

10. In order to benefit from both the pricing benefits and reduced trading costs that a Portfolio Advisor may be able to achieve through its trade execution practices for its advised investment funds and other accounts and from the reduced costs associated with cleared OTC derivatives as compared to other OTC trades, the Filer wishes to have the Funds enter into cleared Swaps.

11. In the absence of the Requested Relief, each Portfolio Advisor will need to structure the Swaps entered into by the Funds so as to avoid the clearing requirements of the CFTC and under EMIR, as applicable. The Filer respectfully submits that this would not be in the best interest of the Funds and their investors for a number of reasons, as set out below.

12. The Filer believes that it is in the best interests of the Funds and their investors to continue to be able to execute OTC derivatives with global counterparties, including U.S. and European swap dealers.

13. In its role as a fiduciary for the Funds, the Filer has determined that central clearing represents the best choice for the investors in the Funds to mitigate the legal, operational and back office risks faced by investors in the global swap markets.

14. Each Portfolio Advisor may use the same trade execution practices for all of its advised investment funds and other accounts, including the Funds. An example of these trade execution practices is block trading, where large numbers of securities are purchased or sold or large derivative trades are entered into on behalf of a number of investment funds and other accounts advised by one Portfolio Advisor. These practices include the use of cleared Swaps. If the Funds are unable to employ these trade execution practices, then each affected Portfolio Advisor will have to create separate

trade execution practices only for the Funds and will have to execute trades for the Funds on a separate basis. This will increase the operational risk for the Funds, as separate execution procedures will need to be established and followed only for the Funds. In addition, the Funds will no longer be able to enjoy the possible price benefits and reduction in trading costs that a Portfolio Advisor may be able to achieve through a common practice for its advised investment funds and other accounts. In the Filer's opinion, best execution and maximum certainty can best be achieved through common trade execution practices, which, in the case of OTC derivatives, involve the execution of Swaps on a cleared basis.

15. As a member of the G20 and a participant in the September 2009 commitment of G20 nations to improve transparency and mitigate risk in derivatives markets, Canada has expressly recognized the systemic benefits that clearing OTC derivatives offers to market participants, such as the Funds. The Filer respectfully submits that the Funds should be encouraged to comply with the robust clearing requirements established by the CFTC and under EMIR by granting them the Requested Relief.

16. The Requested Relief is analogous to the treatment currently afforded under NI 81-102 to other types of derivatives that are cleared, such as clearing corporation options, options on futures and standardized futures. This demonstrates that, from a policy perspective, the Requested Relief is consistent with the views of the Canadian securities authorities in respect of cleared derivative trades.

17. For the reasons provided above, the Filer submits that it would not be prejudicial to the public interest to grant the Requested Relief.

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 Requested Relief is granted provided that when any rules applicable to customer clearing of OTC derivatives enter into force, the Clearing Corporation is permitted to offer customer clearing of OTC derivatives in the Jurisdiction or the Other Jurisdiction, as the case may be, where the Fund is located and provided further that, in respect of the deposit of cash and other portfolio assets as margin:

(a) in Canada,

  (i) the Futures Commission Merchant is a member of a SRO that is a participating member of CIPF; and

  (ii) the amount of margin deposited and maintained with the Futures Commission Merchant does not, when aggregated with the amount of margin already held by the Futures Commission Merchant, exceed 10 percent of the net asset value of the Fund as at the time of deposit; and

(b) outside of Canada,

  (i) the Futures Commission Merchant is a member of a Clearing Corporation and, as a result, is subject to a regulatory audit;

  (ii) the Futures Commission Merchant has a net worth, determined from its most recent audited financial statements that have been made public or from other publicly available financial information, in excess of the equivalent of $50 million; and

  (iii) the amount of margin deposited and maintained with the Futures Commission Merchant does not, when aggregated with the amount of margin already held by the Futures Commission Merchant, exceed 10 percent of the net asset value of the Fund as at the time of deposit.

This decision will terminate on the coming into force of any revisions to the provisions of NI 81-102 that address the clearing of OTC derivatives.

"Raymond Chan"
Manager, Investment Funds and Structured Products
Ontario Securities Commission

2.1.2 Mackenzie Financial Corporation and JVK Life & Wealth Advisory Group Inc.

Headnote

National Policy 11-203 – Process for Exemptive Relief Applications in Multiple Jurisdictions – Relief from the requirement in s.3.2.01, NI 81-101 to deliver a fund facts document to investors for subsequent purchases of mutual fund securities made pursuant to model portfolios, subject to certain conditions.

Applicable Legislative Provisions

National Instrument 81-101 Mutual Fund Prospectus Disclosure, ss. 3.2.01, 6.1.

May 30, 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
MACKENZIE FINANCIAL CORPORATION
(the "Filer")

AND

IN THE MATTER OF
JVK LIFE & WEALTH ADVISORY GROUP INC.
(the "Representative Dealer")

DECISION

Background

The principal regulator ("**Principal Regulator**") in the Jurisdiction has received an application from the Filer for a decision under the securities legislation of the Jurisdiction (the "**Legislation**") for an exemption (the "**Exemption Sought**") from the requirement (the "**Fund Facts Delivery Requirement**") in the Legislation to send or deliver the most recently filed fund facts document (the "**Fund Facts**") in the manner as required under the Legislation in respect of purchases of securities of the Funds that are made in connection with Asset Class Changes, Permitted Range Changes and Rebalancing Trades executed with respect to a Model Portfolio (the "**Exemption Sought**") (each of the capitalized terms as defined below).

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 section 4.7(1) of Multilateral Instrument 11-102 *Passport System* ("**MI 11-102**") is intended to be relied upon by the Filer in all the provinces and territories of Canada (together with Ontario, the "**Jurisdictions**") in respect of the Exemption Sought.

Interpretation

Terms defined in MI 11-102 and 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:

The Filer and the Representative Dealer

1. The Filer is a corporation amalgamated under the laws of the Province of Ontario. The Filer is registered under the *Securities Act* (Ontario) as a portfolio manager, exempt market dealer and investment fund manager, and is also registered as a portfolio manager and exempt market dealer in the other provinces and territories of Canada, and as an investment fund manager in each of Quebec and Newfoundland & Labrador. The Filer is also registered under the *Commodity Futures Act* (Ontario) as a commodity trading manager.

2. The head office of the Filer is located in Toronto, Ontario.

3. The Filer is the manager of mutual funds (the "**Existing Funds**"), each of which is subject to the requirements of National Instrument 81-102 *Investment Funds* ("**NI 81-102**"). The Filer may, in the future, become the manager of additional mutual funds (the "**Future Funds**") that are subject to the requirements of NI 81-102. The Existing Funds and Future Funds are referred to, collectively, as the "**Funds**" and, individually, as a "**Fund**".

4. The Funds are, or will be, reporting issuers in one or more of the Jurisdictions. Securities of the Funds are, or will be, qualified for sale pursuant to a simplified prospectus.

5. Securities of the Funds may be purchased through the Representative Dealer and may also be purchased from other dealers ("**Dealers**") that may or may not be affiliated with the Filer.

6. Each Dealer is, or will be, registered as:

   (a) a dealer in the category of mutual fund dealer under the Legislation and, other than mutual fund dealers registered in Quebec, is also a member of the Mutual Fund Dealers Association of Canada; or

   (b) a dealer in the category of investment dealer under the Legislation and a member of the Investment Industry Regulatory Organization of Canada.

7. The Representative Dealer is registered as a mutual fund dealer and exempt market dealer in the Province of Ontario.

8. The Filer, the Representative Dealer and the Existing Funds are not in default of securities legislation in any Jurisdiction.

The Model Portfolios

9. The Filer offers a service called The Portfolio Architecture Service (the "**PAS**") to investors in the Funds. To be eligible for this service, an investor (an "**Investor**") must:

   (a) invest a minimum of $500,000 in the Funds, exclusive of any investments in Series AR securities of the Funds; and

   (b) invest at least 51% of their portfolio in Series I, O, O6 and/or one or more of the Private Wealth Series of securities of the Funds.

   The particular series to be invested in and the minimum investment amount may be changed from time to time at the discretion of the Filer.

10. For the PAS, the Filer has developed 45 model portfolios (the "**Model Portfolios**"), each of which is comprised exclusively of securities of a selection of the Funds ("**Fund Selection**"). There are Model Portfolios suitable for Investors with short, medium or long-term investment horizons and with different tolerances for risk.

11. Each Model Portfolio has its own unique allocation of equity and fixed income investments and some consist exclusively of either equity or fixed income investments (the "**Asset Classes**").

12. Exposure to the different Asset Classes in each Model Portfolio will be achieved using a recommended list of Funds, each with a specified minimum and maximum percentage permitted range (the "**Permitted Range**") to be invested in each Fund.

13. Under the PAS, an Investor meets with his or her financial Adviser (the "**Adviser**"), who is a registered representative of a Dealer. The Adviser will determine the Investor's financial circumstances, investment knowledge, investment objectives, investment time horizon and their level of risk tolerance. The Filer will then provide a Model Portfolio that the Filer considers to be suitable for the Investor based on the Investor's investment objectives, investment time horizon and risk tolerance. The Adviser reviews the proposed Model Portfolio with the Investor, and modifications may be made with respect to Fund Selection, Permitted Ranges and Asset Classes, with the Investor's approval.

14. If the Investor decides to invest in a Model Portfolio, an agreement (the "**Agreement**") is entered into between the Investor, the Dealer and the Filer that sets out, amongst other matters, the following:

    (a) **Model Portfolio** – The Investor will authorize the Filer to manage the Investor's investment on a discretionary basis with a view to ensuring that the Investor's account is managed in accordance with the agreed upon Model Portfolio based on the Fund Selection, Asset Classes and Permitted Ranges;

    (b) **Fund Selection** – (i) The Investor will authorize the Filer to use its discretion to replace a current Fund (a "**Current Fund**") in a Model Portfolio:

        (i) due to it being terminated, or for any other similar reason that no longer allows the Current Fund to participate as part of a Model Portfolio, or

        (ii) when another Fund (a "**New Fund**") is considered by the Filer to be more appropriate,

        provided that the investment objectives and strategies of the New Fund are substantially consistent with the investment objectives and strategies of the Current Fund being replaced; and

        (iii) the Investor will authorize the Filer to use its discretion to add a New Fund(s) to a Model Portfolio where there has been an Asset Class Fund Selection Change (as defined below), initiated either by the Filer or the Investor.

        For changes to the Fund Selection (Fund Selection Changes) described in (i), (ii) and (iii) above, the Investor is provided with 5 days' prior written notice of the change together with the Fund Facts for the New Fund(s);

    (c) **Asset Classes** – The Investor will authorize the Filer to use its discretion to change the percentage allocations of the Asset Classes within the Model Portfolio provided that the Investor is given 60 days' prior written notice of the change, together with the Fund Facts for the New Fund(s), if any. Changes to the Asset Classes may result in:

        (i) purchases and redemptions of securities of one or more Current Funds in the Model Portfolio ("**Asset Class Changes**") or

        (ii) redemptions of securities of one or more Current Funds in the Model Portfolio and purchases of securities of one or more New Funds in the Model Portfolio ("**Asset Class Fund Selection Changes**");

    (d) **Permitted Ranges** – The Investor will authorize the Filer to use its discretion to change the Permitted Ranges ("**Permitted Range Changes**") of the Model Portfolio provided that the Investor is given 60 days' prior written notice of the change; and

    (e) **Rebalancing Trades** – The Investor will authorize the Filer to rebalance holdings in the Current Funds from time to time within the Permitted Ranges (the "**Rebalancing Trades**").

15. The terms of the Agreement are such that an Investor can terminate the Agreement at any time by providing written notice to the Filer.

16. At the time the Agreement is entered into, an investment policy statement is signed by the Investor which sets out the composition of the Model Portfolio selected by the Investor, the percentage allocation of the Asset Classes, the Permitted Range to be invested in each Current Fund, the fees payable to the Dealer and the Filer as well as the rules governing the investment and management of the Model Portfolio.

17. The Filer carries out the following monitoring and oversight procedures in connection with the Investor's account:

    (a) an annual portfolio review is conducted in conjunction with the Adviser to determine whether there have been any changes in the Investor's circumstances that would warrant modifications to the Model Portfolio; and

(b) the Mackenzie Asset Allocation Team, consisting of portfolio managers, have ongoing oversight responsibilities on the composition of the Model Portfolios and make recommendations for changes where considered appropriate.

18. The Investor may make Fund Selection Changes, Asset Class Changes and Permitted Range Changes or initiate Rebalancing Trades at any time.

19. Fund Selection Changes, made by either the Filer or the Investor, will result in redemptions of securities of one or more Current Funds in the Model Portfolio and purchases of securities of one or more New Funds introduced into the Model Portfolio. Such purchases would trigger the Fund Facts Delivery Requirement for the New Fund(s) introduced into the Model Portfolio.

20. Asset Class Changes, Permitted Range Changes and Rebalancing Trades made by either the Filer or the Investor, will result in redemptions and purchases of securities of one or more Current Funds in the Model Portfolio. Such purchases would trigger the Fund Facts Delivery Requirement for the Current Fund(s) in the Model Portfolio.

The Fund Facts Delivery Requirement

21. The Fund Facts Delivery Requirement requires that a Dealer not acting as agent of the Investor, unless it has previously done so, deliver to the Investor the Fund Facts most recently filed before the Dealer accepts an instruction from the Investor for the purchase of securities of a Fund ("**Pre-Sale Delivery**").

22. For Fund Selection Changes or Asset Class Fund Selection Changes resulting in one or more New Funds being added to the Model Portfolio, Dealers will be required to provide Investors with the most recently filed Fund Facts for the New Fund(s) in accordance with the Fund Facts Delivery Requirement.

23. In the absence of the Exemption Sought, the Dealers will be required to deliver the most recently filed Fund Facts in accordance with the Fund Facts Delivery Requirement in respect of purchases of securities of the Current Funds that are made in connection with Asset Class Changes, Permitted Range Changes and Rebalancing Trades executed with respect to a Model Portfolio.

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 Exemption Sought is granted provided that:

(a) each Investor in a Model Portfolio is sent or delivered a notice that states:

(i) subject to paragraph (b), and except as provided for in representation 22 above, the Investor will not receive the Fund Facts for the Funds in the Model Portfolio after the date of the notice, unless the Investor specifically requests it,

(ii) the Investor is entitled to receive upon request, at no cost to the Investor, the most recently filed Fund Facts for the Funds in the Model Portfolio by calling a specified toll-free number, or by sending a request by mail or e-mail to a specified address or e-mail address,

(iii) how to access the Fund Facts for the Funds in the Model Portfolio electronically,

(iv) the Investor will not have a right of withdrawal under the Legislation for Asset Class Changes, Permitted Range Changes and Rebalancing Trades for the Funds in the Model Portfolio, but will continue to have a right of action if there is a misrepresentation in the prospectus or any document incorporated by reference into the prospectus, and

(v) the Investor may terminate the Agreement at any time;

(b) at least annually, the Investor will be advised in writing of how they can request the most recently filed Fund Facts;

(c) the most recently filed Fund Facts is sent or delivered to the Investor if the Investor requests it;

(d) the Filer will provide to the Principal Regulator on an annual basis beginning 60 days after the date upon which the Exemption Sought is first relied upon by a Dealer, either

(i) a current list of all such Dealers that are relying on the Exemption Sought, or

(ii) an update to the list of such Dealers or confirmation that there has been no change to such list;

(e) prior to a Dealer relying on this Decision, the Filer provides to the Dealer:

(i) a copy of this Decision,

(ii) a disclosure statement informing the Dealer of the implications of this Decision, and

(iii) a form of acknowledgement of the matters referred to in paragraph (f) below, to be signed and returned by the Dealer to the Filer; and

(f) a Dealer seeking to rely on this Decision will, prior to doing so:

(i) acknowledge receipt of a copy of this Decision providing the Exemption Sought,

(ii) consent to the Filer providing to the Principal Regulator on an annual basis the name of the Dealer so long as it relies on this Decision, and

(iii) deliver to the Filer a signed acknowledgement and agreement binding the Dealer to the foregoing.

"Vera Nunes"
Manager, Investment Funds and Structured Products Branch
Ontario Securities Commission

2.1.3 Mainstreet Health Investments Inc.

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – Reporting issuer seeking relief from requirement under section 3.2 of NI 52-107 to permit the issuer to file financial statements of its primary tenant, Symcare, prepared using US GAAP pursuant to an undertaking.

Applicable Legislative Provisions

National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards, s. 3.2.

June 2, 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
MAINSTREET HEALTH INVESTMENTS INC.
(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 (the **Legislation**) that the Filer be exempt from filing unaudited quarterly and audited annual financial statements (collectively, the **Symcare Financial Statements**) for its primary tenant, Symcare ML, LLC (**Symcare**) prepared in accordance with International Financial Reporting Standards (**IFRS**), as required under Sections 2.1(2)(e) and 3.2 of National Instrument 52-107 – *Acceptable Accounting Principles and Auditing Standards* (**NI 52-107**), and, instead, allow the Symcare Financial Statements to be prepared using United States Generally Accepted Accounting Principles (**US GAAP**) (the **Exemption 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;

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

(c) the decision of the principal regulator automatically results in an equivalent decision in the Passport Jurisdictions.

Interpretation

Terms defined in National Instrument 14-101 *Definitions*, MI 11-102 or NI 52-107 have the same meanings if used in this decision, unless otherwise defined herein.

Representations

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

1. The Filer was incorporated under the *Business Corporations Act* (Ontario) by articles of incorporation on May 31, 2007. The Filer amalgamated with its two wholly owned subsidiaries, 2322003 Ontario Inc. and 2172568 Ontario Limited pursuant to articles of amalgamation dated July 31, 2015.

2. The Filer's head office is located at 11 King Street West, Suite 700, Toronto, Ontario, M5H 4C7.

3. The Filer is in the business of investing in investment properties focused on senior care facilities. The Filer is a holding company whose revenues/cash flows and ability to pay regular dividends to its shareholders are dependent upon the financial performance of its tenants/operators and their ability to satisfy their lease obligations.

4. The authorized share capital of the Filer consists of an unlimited number of common shares (**Common Shares**), an unlimited number of non-voting shares (**Non-Voting Shares**) and an unlimited number of Class A preferred shares (**Class A Shares**).

5. As of the date hereof, there are 22,771,543 Common Shares issued and outstanding, no Non-Voting Shares issued and outstanding and no Class A Shares issued and outstanding.

6. The Common Shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "HLP.U".

7. The Filer is a reporting issuer under the Legislation and the securities legislation of the Passport Jurisdictions (collectively, the **Passport Jurisdiction Legislation**) and is not in default of

any requirement under the Legislation or the Passport Jurisdiction Legislation.

8. The Filer is not an "SEC issuer" as defined in NI 52-107.

9. Symcare is not a reporting issuer or equivalent in any of the Passport Jurisdictions or an "SEC issuer" as defined in NI 52-107.

10. The Filer is not a party to any proceeding or, to the best of its knowledge, information and belief, any pending proceeding under the Legislation (or the Passport Jurisdiction Legislation).

11. On October 30, 2015, Mainstreet Health Holdings Inc. (**MHI Holdco**), a newly formed Cayman Islands corporation, indirectly acquired a portfolio of 10 senior care properties in Illinois and agreed to acquire an eleventh senior care property in 2016 from Symphony (as defined below) (the eleven properties are collectively referred to herein as the **Symphony Portfolio**). The initial 10 properties in the Symphony Portfolio were acquired for a purchase price of approximately US$268.4 million, plus expenses, which was funded by MHI Holdco through the issuance of approximately US$20.7 million of shares of MHI Holdco (**MHI Holdco Shares**) to Mainstreet Investment Company, LLC (**Mainstreet**) and third party investors, the issuance of approximately US$108.0 million of convertible debentures to third party investors, approximately US$142.3 million of senior bank financing, a US$2.0 million loan from Mainstreet and negative working capital of approximately US$3.2 million.

12. The purchase price for the eleventh senior care property (located in Hanover Park Illinois), which was acquired on April 29, 2016, was approximately US$34.1 million, plus expenses.

13. On February 29, 2016, the Filer entered into an amended and restated purchase agreement (the **Purchase Agreement**) with Mainstreet. Pursuant to the Purchase Agreement, the Filer agreed to acquire all of the MHI Holdco Shares held by Mainstreet (the **Mainstreet MHI Holdco Shares**), for an implied purchase price of approximately US$15,552,794 (the **Transaction**). The Transaction was completed on April 4, 2016. The Mainstreet MHI Holdco Shares represent approximately 75% of the issued and outstanding MHI Holdco Shares.

14. On March 1, 2016, the Filer filed a management information circular in connection with an annual and special meeting held on March 30, 2016, at which shareholders were asked to, among other things, approve (i) the Filer's continuance into the Province of British Columbia, (ii) the Filer's name change from Kingsway Arms Retirement Residences, Inc. to Mainstreet Health Investments Inc. and (iii) the Transaction. Such matters were approved by the shareholders of the Filer on March 30, 2016.

15. In consideration for the Mainstreet MHI Holdco Shares, the Filer agreed to issue to Mainstreet 81,160,000 Common Shares and 307,659,850 Non-Voting Shares at an implied price of US$0.04 per Common Share (but, in any event, no less than CDN$0.05 per Common Share).

16. On May 26, 2016, the Filer filed, and obtained a receipt for, a final long form prospectus for its public offering of 9,500,000 Common Shares (the **Offering**). The gross proceeds of the Offering were US$95 million. The Filer intends to acquire additional senior care facilities with the proceeds from the Offering. These additional acquisitions do not individually represent significant assets to the Filer.

17. In connection with the closing of the Offering, Mainstreet will convert its Non-Voting Shares into Common Shares of the Filer.

18. Following completion of the Offering, MHI Holdco will be wound up or continued pursuant to the laws of Canada or a province thereof.

19. The properties comprising the Symphony Portfolio have been leased to Symcare, a third party master tenant, pursuant to a triple net lease (the **Lease**). Symcare, has, in turn, entered into a sublease agreement with newly formed affiliates (the **New Operators**). The New Operators will operate the senior care businesses comprising the Symphony Portfolio properties.

20. Symcare and the New Operators are under common ownership and control, and are owned by certain principals of Symphony Post Acute Network or its affiliates (together, referred to as **Symphony**).

21. Symcare and the New Operators are arm's length parties to the Filer and Mainstreet. The Filer will not participate in the profits generated by the New Operators. The Symcare Financial Statements are financial statements of an unrelated, third party operator. The Filer does not have legal control over Symphony and does not have the legal ability to require the Symcare Financial Statements to be prepared in accordance with IFRS. Symcare and the New Operators are not promoters of the Filer and they will not receive any proceeds from any prospectus offerings contemplated by the Filer.

22. The Purchase Agreement in respect of the Symphony Portfolio and the Lease were filed by the Filer as material contracts on the *System for Electronic Document Analysis and Retrieval* in accordance with National Instrument 51-102 – *Continuous Disclosure Obligations* (**NI 51-102**).

23. Pursuant to the Lease, Symcare, the Filer's primary tenant, is required to provide the landlord, an affiliate of MHI Holdco, with, among other things, the Symcare Financial Statements under US GAAP (which will be comprised of combined financial information of the New Operators including operational information). The annual Symcare Financial Statements will be audited in accordance with US American Institute of Certified Public Accountants Generally Accepted Auditing Standards.

24. The Lease also contains certain financial covenants that are determined based on US GAAP that must be maintained by Symcare. As such, preparing the Symcare Financial Statements under US GAAP (as compared to preparing the Symcare Financial Statements in accordance with IFRS) will allow shareholders of the Filer to assess Symcare's financial performance relative to its covenants under the Lease.

25. Until the Filer diversifies its portfolio of investment properties, the Filer's financial results and ability to pay dividends will depend, in part, on the financial performance of the Symphony Portfolio operated by the Filer's primary tenant, Symcare. The preparation and filing of the Symcare Financial Statements are intended to provide shareholders of the Filer with information relating to Symcare's operations, including information with respect to its ability to satisfy its lease payments to the Filer on an ongoing basis, until such time that the Symphony Portfolio no longer represents a significant asset of the Filer.

26. Shareholders of the Filer will not be prejudiced by the preparation of the Symcare Financial Statements under US GAAP. The Filer has represented that based on a comparison of the application of IFRS versus US GAAP, the US GAAP financial statements will not be materially different than financial statements prepared under IFRS.

27. The Filer has provided an undertaking to the applicable Canadian securities regulatory authorities wherein the Filer has agreed to file the Symcare Financial Statements prepared using US GAAP and related management's discussion and analysis (MD&A), prepared in accordance with NI 51-102, in each case in accordance with the applicable filing deadlines for the Filer's financial statements and MD&A pursuant to NI 51-102, until such time as the Symphony Portfolio no longer represents a significant asset to the Filer.

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 Exemption Sought is granted.

"Cameron McInnis"
Chief Accountant
Ontario Securities Commission

2.2 Orders

2.2.1 Randy Zenovi Calmusky – s. 127(1)

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

AND

IN THE MATTER OF
RANDY ZENOVI CALMUSKY

ORDER
(Subsection 127(1) of the Securities Act)

WHEREAS:

1. On January 12, 2016, the Alberta Securities Commission issued an Order imposing sanctions and restrictions upon Randy Zenovi Calmusky;

2. On May 9, 2016, Staff of the Ontario Securities Commission (the "Commission") filed a Statement of Allegations, in which Staff sought an order imposing various sanctions against Calmusky;

3. The Commission issued a Notice of Hearing setting a May 30, 2016 hearing date in respect of the Statement of Allegations;

4. At the hearing on May 30, 2016, the Commission ordered the proceeding adjourned to June 10, 2016;

5. Calmusky consents to this Order, as appears from the Consent filed by Staff on May 31, 2016;

6. Pursuant to paragraph 4 of subsection 127(10) of the *Securities Act*, an Order made by a securities regulatory authority in any jurisdiction that imposes sanctions, conditions, restrictions or requirements on a person may form the basis for an Order made under subsection 127(1) of the *Securities Act*; and

7. The Commission is of the opinion that it is in the public interest to make this Order:

IT IS ORDERED THAT:

1. Pursuant to paragraph 2 of subsection 127(1) of the *Securities Act*, trading in any securities or derivatives by Calmusky shall cease permanently;

2. Pursuant to paragraph 2.1 of subsection 127(1) of the *Securities Act*, acquisition of any securities by Calmusky is prohibited permanently,

3. Pursuant to paragraph 3 of subsection 127(1) of the *Securities Act*, any exemptions contained in Ontario securities law shall permanently not apply to Calmusky;

4. Pursuant to paragraphs 7, 8.1 and 8.3 of subsection 127(1) of the *Securities Act*, Calmusky shall resign any positions that he holds as a director or officer of any issuer, registrant or investment fund manager;

5. Pursuant to paragraphs 8, 8.2 and 8.4 of subsection 127(1) of the *Securities Act*, Calmusky is prohibited permanently from becoming or acting as a director or officer of any issuer, registrant or investment fund manager;

6. Pursuant to paragraph 8.5 of subsection 127(1) of the *Securities Act*, Calmusky is prohibited permanently from becoming or acting as a registrant, investment fund manager or promoter; and

7. The hearing date scheduled for June 10, 2016 is vacated.

DATED at Toronto this 3rd day of June, 2016.

"Timothy Moseley"

2.2.2 BMO Asset Management Inc. et al. – s. 80 of the CFA

Headnote

Section 80 of the Commodity Futures Act (Ontario) – Relief from the adviser registration requirement of paragraph 22(1)(b) of the CFA granted to sub-advisers headquartered in a foreign jurisdiction in respect of advice regarding trades in commodity futures contracts and commodity futures options, subject to certain terms and conditions – Relief mirrors exemption available in section 8.26.1 of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations made under the Securities Act (Ontario).

Applicable Legislative Provisions

Commodity Futures Act, R.S.O. 1990, c. C.20, as am., ss. 1(1), 22(1)(b), 80.
Securities Act, R.S.O. 1990, c. S.5, as am., s. 25(3).
National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, s. 8.26.1.
Ontario Securities Commission Rule 35-502 Non-Resident Advisers, s. 7.11.

IN THE MATTER OF
THE COMMODITY FUTURES ACT,
R.S.O. 1990, CHAPTER C.20, AS AMENDED
(the CFA)

AND

IN THE MATTER OF
BMO ASSET MANAGEMENT INC.,
F&C MANAGEMENT LIMITED,
LGM INVESTMENTS LIMITED, AND
PYRFORD INTERNATIONAL LIMITED

ORDER
(Section 80 of the CFA)

UPON the application (the **Application**) of F&C Management Limited (**F&C**), LGM Investments Limited (**LGM Investments**), Pyrford International Limited (**Pyrford** and, together with F&C and LGM Investments, the **Sub-Advisers** and, each, a **Sub-Adviser**) and BMO Asset Management Inc. (the **Principal Adviser**) to the Ontario Securities Commission (the **Commission**) for an order, pursuant to section 80 of the CFA, that each Sub-Adviser (and individuals engaging in, or holding themselves out as engaging in, the business of advising others when acting on behalf of a Sub-Adviser in respect of the Sub-Advisory Services (as defined below) (the **Representatives**)) be exempt, for a specified period of time, from the adviser registration requirements of paragraph 22(1)(b) of the CFA when acting as a sub-adviser to the Principal Adviser for the benefit of the Clients (as defined below) regarding commodity futures contracts and commodity futures options traded on commodity futures exchanges (collectively, the **Contracts**) and cleared through clearing corporations;

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

AND UPON the Principal Adviser and the Sub-Advisers having represented to the Commission that:

1. The Principal Adviser is a corporation organized under the laws of the Province of Ontario with its head office located in Toronto, Ontario.

2. The Principal Adviser is an indirect wholly-owned subsidiary of Bank of Montreal (**BMO**), a global financial services company providing a full-spectrum of banking and related services including asset management and wealth management services. As such, the Principal Adviser leverages the global expertise of investment professionals at its affiliates worldwide.

3. The Principal Adviser is currently registered (i) as an adviser in the category of portfolio manager and as a dealer in the category of exempt market dealer in each of the provinces and territories of Canada, (ii) as an investment fund manager in Ontario, Newfoundland and Labrador and Québec, and (iii) as an adviser in the category of commodity trading manager in Ontario.

4. The Principal Adviser is not in default of securities legislation, commodity futures legislation or derivatives legislation in any jurisdiction of Canada.

5. F&C is a corporation organized under the laws of England and Wales. The head office of F&C is located in London, United Kingdom. F&C is an indirect wholly-owned subsidiary of BMO.

6. F&C is authorized and regulated by the United Kingdom Financial Conduct Authority (**FCA**) (No. 119230) as a financial services firm to advise on investments, including commodity futures, commodity options and options on commodity futures. F&C engages in the business of an adviser in respect of Contracts in the United Kingdom.

7. F&C currently relies on the international dealer, international adviser and international investment fund manager exemptions under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) and Multilateral Instrument 32-102 *Registration Exemptions for Non-Resident Investment Fund Managers* in respect of dealer, advisory and management services for securities provided to residents of Canada.

8. LGM Investments is a corporation organized under the laws of England and Wales. The head office of LGM Investments is located in London, United Kingdom. LGM Investments is a wholly-owned subsidiary of LGM (Bermuda) Ltd., which is an indirect wholly-owned subsidiary of BMO.

9. LGM Investments is authorized and regulated by the FCA (No. 176763) as a financial services firm to advise on investments, including commodity futures, commodity options and options on commodity futures. LGM Investments engages in the business of an adviser in respect of Contracts in the United Kingdom.

10. Pyrford is a corporation organized under the laws of England and Wales. The head office of Pyrford is located in London, United Kingdom. Pyrford is an indirect wholly-owned subsidiary of BMO.

11. Pyrford is authorized and regulated by the FCA (No. 122137) as a financial services firm to advise on investments, including commodity futures, commodity options and options on commodity futures. Pyrford engages in the business of an adviser in respect of Contracts in the United Kingdom.

12. None of the Sub-Advisers is registered in any capacity under the CFA or the *Securities Act* (Ontario) (the **OSA**) other than Pyrford, which is registered as a portfolio manager under the OSA, and each Sub-Advisor, other than Pyrford, acts in reliance on the exemption from the requirement to register as an adviser under the OSA available to it pursuant to section 8.26.1 of NI 31-103.

13. Each Sub-Adviser is registered in a category of registration, or operates under an exemption from registration, under the commodities futures or other applicable legislation of its principal jurisdiction that permits it to carry on the activities in that jurisdiction that registration as an adviser under the CFA would permit it to carry on in Ontario. As such, each Sub-Adviser is authorized and permitted to carry on the Sub-Advisory Services (as defined below).

14. The Sub-Advisers are not in default of securities legislation, commodity futures legislation or derivatives legislation in any jurisdiction of Canada.

15. The Principal Adviser provides investment advice and/or discretionary portfolio management services in Ontario to (i) investment funds, the securities of which are qualified by prospectus for distribution to the public in Ontario and the other provinces and territories of Canada (the **Investment Funds**); (ii) pooled funds, the securities of which are sold on a private placement basis in Ontario and the other provinces and territories of Canada pursuant to available prospectus exemptions (the **Pooled Funds**); (iii) clients who have entered into investment management agreements with the Principal Adviser to establish managed accounts (the **Managed Account Clients**); and (iv) other Investment Funds, Pooled Funds and Managed Account Clients that may be established or retained in the future and in respect of which the Principal Adviser engages a Sub-Adviser to provide portfolio advisory services (the **Future Clients**) (each of the Investment Funds, Pooled Funds, Managed Account Clients and Future Clients being referred to individually as a **Client** and collectively as the **Clients**).

16. Certain of the Clients may, as part of their investment program, invest in Contracts. The Principal Adviser acts, or will act, as a commodity trading manager in respect of such Clients.

17. In connection with the Principal Adviser acting as an adviser to Clients in respect of the purchase or sale of Contracts, the Principal Adviser, pursuant to written agreements made between the Principal Adviser and each respective Sub-Adviser, has retained or will retain the respective Sub-Adviser to act as a sub-adviser to the Principal Adviser in respect of Contracts in which that Sub-Adviser has experience and expertise by exercising discretionary authority on behalf of the Principal Adviser, in respect of all or a portion of the assets of the investment portfolio of the respective Client, which may include discretionary authority to buy or sell Contracts for the Client (the **Sub-Advisory Services**), provided that:

(a) in each case, the Contracts must be cleared through an "acceptable clearing corporation" (as defined in National Instrument 81-102 *Investment Funds*, or any successor thereto (**NI 81-102**)) or a clearing corporation that clears and settles transactions made on a futures exchange listed in Appendix A of NI 81-102, or any successor thereto; and

(b) such investments are consistent with the investment objectives and strategies of the applicable Client.

18. Paragraph 22(1)(b) of the CFA prohibits a person or company from acting as an adviser unless the person or company is registered as an adviser under the CFA, or is registered as a representative or as a partner or an officer of a registered adviser and is acting on behalf of a registered adviser. Under the CFA, "adviser" means a person or company engaging in or holding himself, herself or itself out as engaging in the business of advising others as to trading in "contracts", and "contracts" means commodity futures contracts and commodity futures options.

19. By providing the Sub-Advisory Services, the Sub-Advisers will be engaging in, or holding themselves out as engaging in, the business of advising others with respect to Contracts and, in the absence of being granted the requested relief, would be required to register as advisers under the CFA.

20. There is presently no rule or regulation under the CFA that provides an exemption from the adviser registration requirement in paragraph 22(1)(b) of the CFA that is similar to the exemption from the adviser registration requirement in subsection 25(3) of the OSA which is provided under section 8.26.1 of NI 31-103.

21. The relationship among the Principal Adviser, the Sub-Advisers and any Client is consistent with the requirements of section 8.26.1 of NI 31-103.

22. The Sub-Advisers will only provide the Sub-Advisory Services as long as the Principal Adviser is, and remains, registered under the CFA as an adviser in the category of commodity trading manager.

23. As would be required under section 8.26.1 of NI 31-103:

(a) the obligations and duties of each Sub-Adviser will be set out in a written agreement with the Principal Adviser;

(b) the Principal Adviser will enter into a written contract with each Client agreeing to be responsible for any loss that arises out of the failure of any Sub-Adviser:

(i) to exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of the Principal Adviser and each Client; or

(ii) to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances (together with (i), the **Assumed Obligations**).

24. The written agreements between the Principal Adviser and each Sub-Adviser will set out the obligations and duties of each party in connection with the Sub-Advisory Services and will permit the Principal Adviser to exercise the degree of supervision and control it is required to exercise over the Sub-Adviser in respect of the Sub-Advisory Services.

25. The Principal Adviser will deliver to the Clients all required reports and statements under applicable securities, commodity futures and derivatives legislation.

26. The prospectus or other offering document, if any (the **Offering Document**), for each Client that is an Investment Fund or a Pooled Fund and for which the Principal Adviser engages one or more Sub-Advisers to provide the Sub-Advisory Services will include the following disclosure (the **Required Disclosure**):

(a) a statement that the Principal Adviser is responsible for any loss that arises out of the failure of any Sub-Adviser to meet the Assumed Obligations; and

(b) a statement that there may be difficulty in enforcing any legal rights against a Sub-Adviser (or any of their Representatives) because the Sub-Adviser is resident outside of Canada and all or substantially all of their assets are situated outside of Canada.

27. If a Client is an Investment Fund or Pooled Fund, then any investor in such Client that resides in Ontario and purchases securities of such Client directly from the Principal Adviser will receive the Required Disclosure in writing (which may be in the form of an Offering Document).

28. Each Client that is a Managed Account Client for which the Principal Adviser engages a Sub-Adviser to provide the Sub-Advisory Services will receive the Required Disclosure in writing prior to the purchasing of any Contracts for such Client.

AND UPON being satisfied that it would not be prejudicial to the public interest for the Commission to grant the exemption requested;

IT IS ORDERED, pursuant to section 80 of the CFA, that each Sub-Adviser and its Representatives are exempt from the adviser registration requirement in paragraph 22(1)(b) of the CFA when acting as sub-adviser to the Principal Adviser in respect of the Sub-Advisory Services provided that at the relevant time that such activities are engaged in:

(a) the Principal Adviser is registered under the CFA as an adviser in the category of commodity trading manager;

(b) the Sub-Adviser's head office or principal place of business is in a foreign jurisdiction;

(c) the Sub-Adviser is registered in a category of registration, or operates under an exemption from registration, under the commodity futures or other applicable legislation of the foreign jurisdiction in which its head office or principal place of business is located, that permits it to carry on the activities in that jurisdiction that registration as an adviser under the CFA would permit it to carry on in Ontario;

(d) the Sub-Adviser engages in the business of an adviser in respect of Contracts in the foreign jurisdiction in which its head office or principal place of business is located;

(e) the obligations and duties of the Sub-Adviser are set out in a written agreement with the Principal Adviser;

(f) the Principal Adviser has entered into a written agreement with the Clients, agreeing to be responsible for any loss that arises out of any failure of the applicable Sub-Adviser to meet the Assumed Obligations;

(g) the Offering Document of each Client that is an Investment Fund or Pooled Fund and for which the Principal Adviser engages a Sub-Adviser to provide the Sub-Advisory Services will include the Required Disclosure;

(h) prior to purchasing any securities of one or more of the Clients that are Investment Funds or Pooled Funds directly from the Principal Adviser, all investors in these Clients who are Ontario residents will receive, or have received, the Required Disclosure in writing; and

(i) each Client that is a Managed Account Client for which the Principal Adviser engages a Sub-Adviser to provide the Sub-Advisory Services will receive, or has received, the Required Disclosure in writing prior to the purchasing of any Contracts for such Client.

IT IS FURTHER ORDERED that this Order will terminate on the earliest of

(a) such transition period as provided by operation of law, after the effective date of the repeal of the CFA;

(b) six months, or such other transition period as provided by operation of law, after the coming into force of any amendment to Ontario commodity futures law (as defined in the CFA) or Ontario securities law (as defined in the OSA) that affects the ability of a Sub-Adviser to act as a sub-adviser to the Principal Adviser in respect of the Sub-Advisory Services; and

(c) five years after the date of this Order.

DATED at Toronto, Ontario, this 31st day of May, 2016.

"T. Moseley"
Commissioner
Ontario Securities Commission

"W. Furlong"
Commissioner
Ontario Securities Commission

2.2.3 Saputo Inc. – s. 6.1 of NI 62-104 Take-Over Bids and Issuer Bids

Headnote

Section 6.1 of NI 62-104 – Issuer bid – relief from the requirements applicable to issuer bids in Part 2 of NI 62-104 – Issuer proposes to purchase, at a discounted purchase price, up to 1,291,000 of its common shares from two of its shareholders – due to the discounted purchase price, proposed purchases cannot be made through the TSX trading system – but for the fact that the proposed purchases cannot be made through the TSX trading system, the Issuer could otherwise acquire the subject shares in accordance with the TSX rules governing normal course issuer bids, in reliance on the issuer bid exemption in subsection 4.8(2) of NI 62-104 – the selling shareholders did not purchase the subject shares in anticipation or contemplation of resale to the Issuer and no common shares have been purchased by either of them for a minimum of 30 days prior to the date of the application seeking the requested relief in anticipation or contemplation of a sale of common shares by either of them to the Issuer – no adverse economic impact on, or prejudice to, the Issuer or other security holders – proposed purchases exempt from the requirements applicable to issuer bids in Part 2 of NI 62-104, subject to conditions, including that the Issuer not purchase, in the aggregate, more than one-third of the maximum number of shares to be purchased under its normal course issuer bid by way of off-exchange block purchases, and that the Issuer not make any proposed purchase unless it has first obtained written confirmation from each selling shareholder that between the date of the order and the date on which the proposed purchase is completed, neither selling shareholder has purchased, had purchased on its behalf, or otherwise accumulated, any common shares of the Issuer to re-establish its, or the other selling shareholder's, holdings of common shares which will have been reduced as a result of the sale of the subject shares pursuant to the proposed purchases.

Statutes Cited

National Instrument 62-104 Take-Over Bids and Issuer Bids, Part 2 and s. 6.1.

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

AND

IN THE MATTER OF
SAPUTO INC.

ORDER
(Section 6.1 of National Instrument 62-104)

UPON the application (the "**Application**") of Saputo Inc. (the "**Issuer**") to the Ontario Securities Commission (the "**Commission**") for an order pursuant to section 6.1 of National Instrument 62-104 *Take-Over Bids and Issuer Bids* ("**NI 62-104**") exempting the Issuer from the requirements applicable to issuer bids in Part 2 of NI 62-104 (the "**Issuer Bid Requirements**") in respect of the proposed purchases by the Issuer of up to an aggregate of 1,291,000 common shares of the Issuer (collectively, the "**Subject Shares**") in one or more trades from the Bank of Montreal and/or BMO Nesbitt Burns Inc. (each, a "**Selling Shareholder**" and collectively, the "**Selling Shareholders**");

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

AND UPON the Issuer (and each Selling Shareholder in respect of paragraphs 5, 6, 7, 8, 9, 10, 13, 24, and 25, as they relate to such Selling Shareholder) having represented to the Commission that:

1. The Issuer is a corporation governed by the *Canada Business Corporations Act*.

2. The head and registered office of the Issuer is located at 6869, Métropolitain Boulevard East, Saint-Léonard, Québec, H1P 1X8.

3. The Issuer is a reporting issuer in each of the provinces and territories of Canada and the common shares of the Issuer (the "**Common Shares**") are listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "SAP". The Issuer is not in default of any requirement of the securities legislation in the jurisdictions in which it is a reporting issuer.

4. The authorized share capital of the Issuer consists of (a) an unlimited number of Common Shares, and (b) an unlimited number of preferred shares. As of May 3, 2016, there were 392,838,516 Common Shares and no preferred shares issued and outstanding.

5. The corporate headquarters of each of the Selling Shareholders are located in the Province of Ontario. The Selling Shareholders are affiliates of each other.

6. Neither Selling Shareholder owns, directly or indirectly, more than 5% of the issued and outstanding Common Shares.

7. The Bank of Montreal is the beneficial owner of at least 438,000 Common Shares and BMO Nesbitt Burns Inc. is the beneficial owner of at least 853,000 Common Shares. All of the Subject Shares are held by the Selling Shareholders in the Province of Ontario. None of the Subject Shares were acquired by, or on behalf of, either of the Selling Shareholders in anticipation or contemplation of resale by either of them to the Issuer.

8. The Subject Shares are held by the Selling Shareholders in connection with arrangements to hedge client transactions in respect of the Common Shares. Between the date of this Order

and the date on which a Proposed Purchase (as defined below) is to be completed, neither Selling Shareholder will purchase, have purchased on its behalf, or otherwise accumulate, any Common Shares to re-establish its, or the other Selling Shareholder's, holdings of Common Shares which will have been reduced as a result of the sale of Subject Shares pursuant to the Proposed Purchases.

9. No Common Shares were purchased by, or on behalf of, either of the Selling Shareholders on or after April 4, 2016, being the date that was 30 days prior to the date of the Application, in anticipation or contemplation of a sale of Common Shares by either of the Selling Shareholders to the Issuer.

10. Each Selling Shareholder is at arm's length to the Issuer and is not an "insider" of the Issuer or an "associate" of an "insider" of the Issuer, or an "associate" or "affiliate" of the Issuer, as such terms are defined in the *Securities Act* (Ontario) (the "**Act**"). Each Selling Shareholder is an "accredited investor" within the meaning of National Instrument 45-106 Prospectus Exemptions.

11. On November 12, 2015, the Issuer announced a normal course issuer bid (the "**Normal Course Issuer Bid**") to purchase up to 19,547,976 Common Shares (representing approximately 5% of the Issuer's "public float" as of the date specified in the Notice (as defined below)) during the period from November 17, 2015 to November 16, 2016 pursuant to the terms of a "Notice of Intention to Make a Normal Course Issuer Bid" (the "**Notice**") submitted to, and accepted by, the TSX. The Notice contemplates that purchases under the Normal Course Issuer Bid may be made by such other means as may be permitted by the TSX or a securities regulatory authority, in accordance with sections 628 to 629.3 of Part VI of the TSX Company Manual (the "**TSX NCIB Rules**"), including by private agreements under issuer bid exemption orders issued by securities regulatory authorities (each, an "**Off-Exchange Block Purchase**"). The TSX has been advised of the Issuer's intention to enter into the Proposed Purchases and has confirmed that it has no objection to the Proposed Purchases.

12. The Issuer implemented an automatic share purchase plan ("**ASPP**") on November 17, 2015 to permit the Issuer to make purchases under its Normal Course Issuer Bid at such times when the Issuer would not be permitted to trade in the Common Shares, including during internal blackout periods (each such time, a "**Blackout Period**"). The ASPP was pre-cleared by the TSX and complies with the TSX NCIB Rules, applicable securities laws and this Order. Under the ASPP, at times it is not subject to blackout restrictions, the Issuer may, but is not required to, instruct the designated broker under the ASPP (the "**ASPP Broker**") to make purchases under its Normal Course Issuer Bid in accordance with the terms of the ASPP. Such purchases will be determined by the ASPP Broker in its sole discretion based on parameters established by the Issuer prior to any Blackout Period in accordance with TSX rules, applicable securities laws (including this Order) and the terms of the agreement between the ASPP Broker and the Issuer. If the Issuer determines to instruct the ASPP Broker to make purchases under the ASPP during a particular Blackout Period, the Issuer will instruct the ASPP Broker not to conduct a block purchase (a "**Block Purchase**") in reliance on the block purchase exception in clause 629(l)7 of the TSX NCIB Rules in the calendar week in which either (a) the Issuer completes a Proposed Purchase, or (b) a Blackout Period ends and a new trading window of the Issuer opens.

13. The Issuer intends to enter into one or more agreements of purchase and sale with each Selling Shareholder (each, an "**Agreement**") pursuant to which the Issuer will agree to purchase Subject Shares from the applicable Selling Shareholder by way of one or more trades, each occurring by November 16, 2016 (each such purchase, a "**Proposed Purchase**") for a purchase price (each such price, a "**Purchase Price**" in respect of such Proposed Purchase) that will be negotiated at arm's length between the Issuer and the applicable Selling Shareholder. The Purchase Price will, in each case, be at a discount to the prevailing market price and below the prevailing bid-ask price for the Common Shares on the TSX at the time of the relevant Proposed Purchase.

14. The Subject Shares acquired under each Proposed Purchase will constitute a "block" as that term is defined in section 628 of the TSX NCIB Rules.

15. The purchase of any of the Subject Shares by the Issuer pursuant to an Agreement will constitute an "issuer bid" for the purposes of the Act, to which the applicable Issuer Bid Requirements would apply.

16. Because the Purchase Price will, in each case, be at a discount to the prevailing market price and below the prevailing bid-ask price for the Common Shares on the TSX at the time of the relevant Proposed Purchase, none of the Proposed Purchases can be made through the TSX trading system and, therefore, will not occur "through the facilities" of the TSX. As a result, the Issuer will be unable to acquire Subject Shares from either Selling Shareholder in reliance upon the exemption from the Issuer Bid Requirements in subsection 4.8(2) of NI 62-104.

17. But for the fact that the Purchase Price will be at a discount to the prevailing market price and below the prevailing bid-ask price for the Common Shares on the TSX at the time of the relevant Proposed Purchase, the Issuer could otherwise acquire the applicable Subject Shares through the facilities of the TSX as a Block Purchase in reliance on the exemption from the Issuer Bid Requirements in subsection 4.8(2) of NI 62-104.

18. The sale of any of the Subject Shares to the Issuer will not be a "distribution" (as defined in the Act).

19. For each Proposed Purchase, the Issuer will be able to acquire the applicable Subject Shares from the applicable Selling Shareholder without the Issuer being subject to the dealer registration requirements of the Act.

20. Management of the Issuer is of the view that: (a) through the Proposed Purchases, the Issuer will be able to purchase the Subject Shares at a lower price than the price at which it would otherwise be able to purchase Common Shares under the Normal Course Issuer Bid in accordance with the TSX NCIB Rules and the exemption from the Issuer Bid Requirements in subsection 4.8(2) of NI 62-104; and (b) the Proposed Purchases are an appropriate use of the Issuer's funds.

21. The purchase of Subject Shares will not adversely affect the Issuer or the rights of any of the Issuer's security holders and it will not materially affect control of the Issuer. To the knowledge of the Issuer, the Proposed Purchases will not prejudice the ability of other security holders of the Issuer to otherwise sell Common Shares in the open market at the then-prevailing market price. The Proposed Purchases will be carried out at minimal cost to the Issuer.

22. To the best of the Issuer's knowledge, as of May 3, 2016, the "public float" of the Common Shares represented more than 55% of all the issued and outstanding Common Shares for the purposes of the TSX NCIB Rules.

23. The Common Shares are "highly-liquid securities" within the meaning of section 1.1 of OSC Rule 48-501 *Trading during Distributions, Formal Bids and Share Exchange Transactions* and section 1.1 of the Universal Market Integrity Rules.

24. Other than the Purchase Price, no fee or other consideration will be paid by the Issuer in connection with the Proposed Purchases.

25. At the time that each Agreement is entered into by the Issuer and the applicable Selling Shareholder and at the time of each Proposed Purchase, neither the Issuer, nor any member of the Trading Products Group of either Selling Shareholder, nor any personnel of the Selling Shareholders that negotiated the Agreement or made, participated in the making of, or provided advice in connection with, the decision to enter into the Agreement and sell the Subject Shares, will be aware of any "material change" or any "material fact" (each as defined in the Act) in respect of the Issuer that has not been generally disclosed.

26. The Issuer will not make any Proposed Purchase unless it has first obtained confirmation in writing from each Selling Shareholder that, between the date of the Order and the date on which a Proposed Purchase is to be completed, neither Selling Shareholder has purchased, had purchased on its behalf, or otherwise accumulated, any Common Shares to re-establish its, or the other Selling Shareholder's, holdings of Common Shares which will have been reduced as a result of the sale of Subject Shares pursuant to the Proposed Purchases.

27. On May 11, 2016, the Issuer made an application to the *Autorité des marchés financiers* for exemptive relief from the Issuer Bid Requirements in respect of the proposed purchases by the Issuer of up to 750,000 Common Shares from another holder of Common Shares, pursuant to one or more private agreements (the "**AMF Application**").

28. The Commission granted the Issuer an order on February 12, 2016 pursuant to clause 104(2)(c) of the Act exempting the Issuer from the requirements applicable to issuer bid then in effect in connection with purchases by the Issuer pursuant to private agreements of up to 1,900,000 Common Shares from The Toronto-Dominion Bank (the "**TD Order**"). As of May 3, 2016, the Issuer has purchased an aggregate of 1,900,000 Common Shares pursuant to the Normal Course Issuer Bid, all of which were acquired pursuant to the TD Order.

29. The Issuer will not purchase, pursuant to Off-Exchange Block Purchases, in aggregate, more than one-third of the maximum number of Common Shares that the Issuer can purchase under its Normal Course Issuer Bid, such one-third being equal to 6,515,992 Common Shares as of the date of this Order, taking into account, for greater certainty, the Subject Shares and the Common Shares which are the subject of the TD Order and the AMF Application.

30. No Agreement will be negotiated or entered into during a Blackout Period. If a Blackout Period is in effect, the Issuer will not purchase Subject Shares pursuant to the Proposed Purchases until the later of (a) the end of such Blackout Period, and (b) the passage of two clear trading days from the date of the dissemination to the public of the Issuer's financial results and/or any and all "material

changes" or any "material facts" (each as defined in the Act) in respect of the Issuer or the Common Shares relating to such Blackout Period.

31. Assuming completion of (a) the purchase of the maximum number of Subject Shares, being 1,291,000 Common Shares, and (b) the purchase of the maximum number of Common Shares that are the subject of the AMF Application, being 750,000 Common Shares, and taking into account the purchase of the maximum number of Common Shares under the TD Order, being 1,900,000 Common Shares, the Issuer will have purchased under the Normal Course Issuer Bid an aggregate of 3,941,000 Common Shares pursuant to Off-Exchange Block Purchases, representing approximately 20.2% of the maximum of 19,547,976 Common Shares authorized to be purchased under the Normal Course Issuer Bid.

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

IT IS ORDERED pursuant to section 6.1 of NI 62-104 that the Issuer be exempt from the Issuer Bid Requirements in connection with the Proposed Purchases, provided that:

(a) the Proposed Purchases will be taken into account by the Issuer when calculating the maximum annual aggregate limit that is imposed upon the Issuer's Normal Course Issuer Bid in accordance with the TSX NCIB Rules;

(b) the Issuer will refrain from conducting either a Block Purchase in accordance with the TSX NCIB Rules, or another Off-Exchange Block Purchase, during the calendar week in which it completes a Proposed Purchase and will not make any further purchases under its Normal Course Issuer Bid for the remainder of the calendar day on which it completes a Proposed Purchase;

(c) the Purchase Price in respect of each Proposed Purchase will be at a discount to the last "independent trade" (as that term is used in paragraph 629(l)1 of the TSX NCIB Rules) of a board lot of Common Shares immediately prior to the execution of such Proposed Purchase;

(d) the Issuer will otherwise acquire any additional Common Shares pursuant to its Normal Course Issuer Bid in accordance with the Notice and the TSX NCIB Rules, including by means of open market transactions and by such other means as may be permitted by the TSX, and, subject to condition (i) below, by Off-Exchange Block Purchases;

(e) immediately following each Proposed Purchase of Subject Shares from a Selling Shareholder, the Issuer will report the purchase of such Subject Shares to the TSX;

(f) at the time that each Agreement is entered into by the Issuer and the applicable Selling Shareholder and at the time of each Proposed Purchase, neither the Issuer, nor any member of the Trading Products Group of either Selling Shareholder, nor any personnel of the Selling Shareholders that negotiated the Agreement or made, participated in the making of, or provided advice in connection with, the decision to enter into the Agreement and sell the Subject Shares, will be aware of any "material change" or any "material fact" (each as defined in the Act) in respect of the Issuer that has not been generally disclosed;

(g) in advance of the first Proposed Purchase, the Issuer will issue a press release disclosing (i) its intention to make the Proposed Purchases, and (ii) that information regarding each Proposed Purchase, including the number of Subect Shares purchased and the aggregate Purchase Price, will be available on the System for Electronic Document Analysis and Retrieval (SEDAR) following the completion of each Proposed Purchase;

(h) the Issuer will report information regarding each Proposed 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 purchase;

(i) the Issuer does not purchase, pursuant to Off-Exchange Block Purchases, in the aggregate, more than one-third of the maximum number of Common Shares the Issuer can purchase under its Normal Course Issuer Bid, such one third being equal to, as of the date of this Order, 6,515,992 Common Shares; and

(j) the Issuer will not make any Proposed Purchase unless it has first obtained confirmation in writing from each Selling Shareholder that, between the date of this Order and the date on which a Proposed Purchase is to be completed, neither Selling Shareholder has purchased, had purchased on its behalf, or otherwise accumulated, any Common Shares to re-establish its, or the other Selling Shareholder's, holdings of Com-

mon Shares which will have been reduced as a result of the sale of the Subject Shares pursuant to the Proposed Purchases.

Dated at Toronto this 1st day of June, 2016.

"Naizam Kanji"
Director, Office of Mergers & Acquisitions
Ontario Securities Commission

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
Kilkenny Capital Corporation	06 June 2016	
Panda Capital Inc.	03 June 2016	
Vena Resources Inc.	05 April 2016	06 June 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
Golden Leaf Holdings Ltd.	03 May 2016	16 May 2016	16 May 2016	02 June 2016	
Red Tiger Mining Inc.	06 May 2016	18 May 2016	18 May 2016	31 May 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
Blueocean Nutrasciences Inc.	03 May 2016	16 May 2016	16 May 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		
GeneNews Limited	31 March 2016	13 April 2016	13 April 2016		
Golden Leaf Holdings Ltd.	03 May 2016	16 May 2016	16 May 2016	02 June 2016	
Matica Enterprises Inc.	17 May 2016	30 May 2016	30 May 2016		
Northern Power Systems Corp.	31 March 2016	13 April 2016	13 April 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
Red Tiger Mining Inc.	06 May 2016	18 May 2016	18 May 2016	31 May 2016	
Starrex International Ltd.	30 December 2015	11 January 2016	11 January 2016		
Stompy Bot Corporation	04 May 2016	16 May 2016	16 May 2016		
Valeant Pharmaceuticals International, Inc.	17 May 2016	30 May 2016	30 May 2016		

Chapter 5

Rules and Policies

5.1.1 CSA Notice of Changes to Companion Policy 24-102 *Clearing Agency Requirements*

CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

Notice of Changes
to
Companion Policy 24-102 *Clearing Agency Requirements*

June 3, 2016

Introduction

On December 3, 2015, the Canadian Securities Administrators (the **CSA** or **we**) published National Instrument 24-102 *Clearing Agency Requirements* (**Instrument**) and Companion Policy 24-102CP to National Instrument 24-102 *Clearing Agency Requirements* (**Companion Policy**) in final adopted form. Subject to certain transition provisions, the Instrument and Companion Policy became effective in most CSA jurisdictions on February 17, 2016.[1]

The main objective of the Instrument is to impose requirements on recognized clearing agencies that operate as a central counterparty (**CCP**), central securities depository (**CSD**) or securities settlement system (**SSS**). The requirements are based on international standards applicable to a financial market infrastructure (**FMI**), which are described in the April 2012 report *Principles for financial market infrastructures* (as the context requires, the "**PFMIs**" or "**PFMI Report**") published by the Committee on Payments and Market Infrastructures (**CPMI**)[2] and the International Organization of Securities Commissions (**IOSCO**).[3] Implementation of the international standards is intended to enhance the safety and efficiency of clearing agencies, limit systemic risk, and foster financial stability.

The CSA also published on December 3, 2015, for a 60-day comment period, proposed amendments to the final adopted Companion Policy. The proposed amendments consist of new supplementary guidance (**Recovery Guidance**) jointly developed by the Bank of Canada and CSA (collectively, the **Canadian authorities**) on FMI recovery and orderly wind-down planning. The Recovery Guidance is intended to provide additional clarity regarding recovery and orderly wind-down plans for domestically-based, recognized clearing agencies that are also overseen by the Bank of Canada. Canadian authorities expect such clearing agencies to meet the standards related to recovery and orderly wind-down outlined in the PFMI Report. The PFMI Report is supplemented by the October 2014 CPMI-IOSCO report *Recovery of financial market infrastructures* (**Recovery Report**), which further interprets the standards and guidance in the PFMI Report on the subject matter.[4]

The comment period for the Recovery Guidance closed on February 1, 2016. The Canadian authorities have made some modifications to the Recovery Guidance, as a result of both the comments received and emerging international trends in FMI recovery planning and FMI resolution frameworks. None of the modifications are considered material changes. Consequently, we are adopting the Recovery Guidance today as part of the Joint Supplementary Guidance (**JSG**) set forth in Annex 1 to the Companion Policy. In addition, further non-material revisions are being made to other aspects of the JSG, which are intended to simplify and enhance consistency among all the JSG. We have included a blacklined version of the revised Companion Policy in **Annex C** to this Notice, as well as a clean version of the Companion Policy in **Annex D** to this Notice.[5] The material is also available on websites of CSA jurisdictions, including:

1 In Saskatchewan, the effective date was February 19, 2016.

2 Prior to September 2014, CPMI was known as the Committee on Payment and Settlement Systems (**CPSS**).

3 The PFMI Report is available on the Bank for International Settlements' website (www.bis.org) and the IOSCO website (www.iosco.org).

4 The Recovery Report is available on the Bank for International Settlements' website (www.bis.org) and the IOSCO website (www.iosco.org).

5 To clarify, the revisions made to the Companion Policy with this Notice are strictly to the JSG set forth in **Annex 1** to the Companion Policy. Therefore, Annexes C and D to this Notice reproduce the JSG in Annex 1 to the Companion Policy, but not the entirety of the Companion Policy. In addition, while the Recovery Guidance is new text added today to the JSG (new Box 3.1), we have only blacklined in Annex C the changes made to the proposed Recovery Guidance published for comment on December 3, 2015. Other blacklined changes in Annex C made to other aspects of the JSG reflect the non-material revisions that were made to such JSG (i.e., changes to Boxes 2.1, 2.2, 5.1, 7.1, 15.1, 16.1, and 23.1 – also please note that Boxes 2.1 and 2.2 are merged into a single Box 2.1).

www.lautorite.qc.ca
www.albertasecurities.com
www.bcsc.bc.ca
www.gov.ns.ca/nssc
www.fcnb.ca
www.osc.gov.on.ca
www.fcaa.gov.sk.ca
www.msc.gov.mb.ca

This Notice includes the following Annexes:

- Annex A: List of commenters on the Recovery Guidance
- Annex B: Summary of comments and CSA responses
- Annex C: Blacklined version of Annex 1 to final Companion Policy 24-102 *Clearing Agency Requirements*
- Annex D: Clean version of Annex 1 to final Companion Policy 24-102 *Clearing Agency Requirements*

Substance and purpose of Recovery Guidance

The Recovery Guidance is intended to provide additional clarity to the PFMIs and the Recovery Report regarding recovery and orderly wind-down plans in the Canadian context. It clarifies the expectations of the Canadian authorities regarding key components of recovery plans; the selection and application of recovery tools; additional considerations for recovery planning; implementation of recovery plans; review of recovery plans; orderly wind-down; and practical aspects of designing a recovery plan, such as the organization and structure of content.

Comments received on Recovery Guidance and responses

The Canadian authorities received four comment letters. We have considered these comments and thank all the commenters. We have set out the names of the commenters in **Annex A**, and summarized their comments, together with our responses, in **Annex B** to this Notice.[6] Certain commenters suggested delaying the finalization of the Recovery Guidance. The Canadian authorities do not believe that delaying the Recovery Guidance is appropriate. The Recovery Guidance being published today is intended to help clearing agencies develop recovery plans before the end of 2016.

In developing the Recovery Guidance, the Canadian authorities have been influenced by the comments received through the consultation, the evolving international interpretations of the standards and guidance on FMI recovery planning set out in the PFMIs and Recovery Report, and ongoing international policy work related to FMIs and financial stability.

Developments in these areas are having, and will continue to have, a significant global impact on FMI recovery planning and resolution frameworks. To ensure that recovery planning in the Canadian context remains in step with this evolving landscape, Canadian authorities have relaxed some of the previously restrictive language of the Recovery Guidance. Nonetheless, the principled intent of the guidance, in particular its strong emphasis on systemic stability, has not changed and is reinforced by the adjustments made. Specifically:

- references to caps on participant exposures are replaced with language echoing existing Canadian requirements that exposures be limited to fixed or determinable amounts;
- additional emphasis is added to stress the need for measureable, manageable and controllable exposures for participants;
- language is added to stress that Canadian authorities will consider the impact of each successive round of recovery tool application with increasing focus on systemic stability; and
- where certain types of tools were not recommended in the draft Recovery Guidance, language has been adjusted to instead place the onus on the FMIs to justify their use in recovery, where applicable.

It is important to note that these and other proposed changes are not intended to be a departure from the principled approach to recovery, nor do they represent a lesser focus on financial stability on the part of the Recovery Guidance or Canadian authorities. Rather they adapt the Recovery Guidance to be flexible in the fast-evolving area of FMI financial stability, and

[6] We note, however, that comments that were not reasonably within scope of the consultation on the Recovery Guidance are not included in Annex B.

provide the FMIs, their stakeholders, and Canadian authorities the ability to respond within the principled approach that has been adopted.

Effective Date

The revised Companion Policy, which includes the Recovery Guidance, is effective immediately.

Questions

Please refer any of your questions to the CSA staff listed below:

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Ontario Securities Commission
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Ella-Jane Loomis
Senior Legal Counsel, Securities
Financial and Consumer Services Commission (New Brunswick)
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Email: ella-jane.loomis@fcnb.ca

ANNEX A

List of Commenters on Recovery Guidance
(as published for comment on December 3, 2015)

Commenters:

Canadian Bankers Association
CLS Bank
TMX Group Limited
IGM Financial Group

ANNEX B

Summary of Comments on
Proposed Changes to Companion Policy 24-102 *Clearing Agency Requirements*
and CSA Responses

1. Theme/question	2. Summary of comments	3. Responses
General Issues		
Principles-based approach	One commenter expresses support for a principles-based approach to adopting the PFMIs, but views the proposed guidance – with prescriptive language and scope – as a departure from this approach.	The Canadian authorities have amended the language regarding the use of certain recovery tools. The overarching purpose of the guidance is to provide additional clarity in the Canadian context to the PFMIs and the Recovery Report regarding a clearing agency's recovery and orderly wind-down plans. The guidance clarifies the expectations of the Canadian authorities regarding key aspects of recovery plans.
International consistency	Two commenters express the need to maintain international consistency with recovery guidance, and encourage Canadian regulators to consult with the international community and to review the proposed guidance in light of other regulators implementing their recovery regimes. One commenter further suggests delaying implementation until U.S. and EU regulators have finalized their guidance on the issue.	While being mindful of the purpose described above, we agree that we should maintain international consistency in this area. See also the cover Notice. With respect to delaying the guidance, we disagree. See the cover Notice.
Application and level playing field concerns	A commenter seeks clarity with respect to the meaning and implications of the term "designated domestic FMI" used to describe the scope of application of the guidance. In particular, the commenter seeks clarification as to whether foreign-based FMIs designated by the Bank of Canada as systemically important are, or should be, exempt from compliance. One commenter argues that applying the guidance only to designated *domestic* FMIs would lead to an unlevel playing field with designated foreign FMIs.	Section 3.1 of the Companion Policy states that the JSG in Annex 1 is applicable only to "recognized *domestic* clearing agencies that are also overseen by the [Bank of Canada]". By domestic, we mean based in Canada. While the JSG in Annex 1 to the Companion Policy is applicable only to recognized domestic clearing agencies that are also overseen by the Bank of Canada, we would expect a foreign-based recognized clearing agency that is also designated by the Bank of Canada to be subject to home-jurisdiction requirements that achieve an equivalent "outcome". If, hypothetically, a foreign-based clearing agency carrying on business in a local jurisdiction were based in a home jurisdiction that did not have similar regulatory expectations with respect to clearing agency recovery planning and we felt there was a "gap" in this area, CSA regulators could impose requirements analogous to the JSG through terms and conditions in a recognition order.

1. Theme/question	2. Summary of comments	3. Responses
Communication and escalation	One commenter agrees that setting a recovery scenario communication plan in advance may be appropriate, but emphasizes that a contextual approach is required to achieve balance between communication and maintaining public confidence in the markets. The commenter concludes that, while communication between regulators and an FMI's Boards of Directors is appropriate, plans ought not to require communications with any particular stakeholder.	We are of the view that the current wording of the guidance strikes an appropriate balance between transparency and public confidence. Therefore, we have not modified the text on this matter. A communications protocol between a clearing agency and its overseers can be separately agreed-upon.
	Another commenter expresses concern that the language in the guidance suggests that an FMI should obtain prior approval before implementing its recovery plan or a particular tool, which could hinder the quick response that a crisis may require. The commenter proposes that consultation with regulatory authorities regarding recovery plans should be required only where reasonably practicable, and that the guidance should only refer to a communication protocol to be agreed upon separately.	The guidance is clear that a clearing agency should inform or consult with Canadian authorities when taking recovery actions. We consider it critical to be informed to ensure that the clearing agency's decisions take account of potential systemic risk consequences. The guidance does not require prior regulatory approval before triggering the recovery plan and applying a particular recovery tool.
Transparency	One commenter argues that FMIs should be required to make their recovery plans fully available to members. An FMI wishing to keep any part of a plan confidential should be required to justify the non-disclosure. Similarly, the commenter advocates that legal opinions on the application of recovery tools solicited by the FMI be made available to its participants.	Recovery plans would normally be adopted through changes to the clearing agency's rulebook, and therefore be subject to a transparent comment and approval process. Thus, a clearing agency's recovery actions taken under its recovery plan should not surprise participants. In addition, the guidance already stresses that recovery plans must be drafted with a high degree of legal certainty, but it should be left to the clearing agency and its participants to decide how best to ensure this certainty is communicated and ensured.
Categorization and choice of recovery tools	One commenter believes that the guidance ought to define "recovery tool" in a way that accounts for the heterogeneity of FMIs. This commenter also emphasizes the importance of distinguishing between recovery and business continuity management so that recovery plans address the correct objectives.	The guidance provides flexibility in the selection of recovery tools to account for the heterogeneity of clearing agencies in terms of structure and service offering. We have amended the guidance to clarify that a recovery plan aims to facilitate recovery from threats to a clearing agency's viability and financial strength, while a business continuity plan (BCP) facilitates recovery mainly from operational events, but the two are complementary. For example, when an operational incident results in financial losses that threaten the clearing agency's viability, both the BCP and the (financial) recovery plan should be triggered so that they complement each other.
	One commenter criticizes the "recommended" / "non-recommended" binary, citing its inconsistency with international guidance, and suggests softening "non-recommended tools" to "other tools." By discouraging certain tools, the commenter argues that Canadian FMIs may end up worse equipped to manage recovery.	We have amended the language in the guidance by replacing the description of tools that are "not recommended" with "tools requiring further justification".

1. Theme/question	2. Summary of comments	3. Responses
	The same commenter further argues that the guidance should appreciate that continued use of pre-recovery tools in combination with recovery tools may be necessary.	We agree that the continued use of pre-recovery tools in combination with recovery tools may be necessary, but the text in the guidance already encourages clearing agencies to do so: the guidance states that "tools are often already found in the pre-recovery risk-management frameworks of clearing agencies. Canadian authorities encourage their use for recovery as well, provided they are in keeping with the criteria for effective recovery tools as found in the Recovery Report and in this guidance."
Effectiveness of recovery tools	One commenter offers support for the adoption of measurable, manageable, controllable and capped recovery tools, and the discouragement of destabilizing tools, but suggests that FMI recovery plans should include criteria that measure the effectiveness of each tool so that it can be determined whether the recovery process is effective.	The guidance already establishes the following mechanisms to limit the risks of ineffective plans and undue risk to clearing agency participants: 1) Recovery plans should be reviewed, including an assessment of recovery tools, at least annually and following certain events, such as significant changes to market conditions, the clearing agency's business model, or risk exposures; 2) We note the importance of consulting with regulators when applying recovery tools; and 3) Clearing agencies should keep in mind the objective of minimizing the tools' negative impacts on participants, the clearing agency, and the broader financial system.
Application of recovery tools to tiered participants	A commenter states that ensuring recovery tool inclusiveness of all types and tiers of participants is imperative and that, where inclusiveness cannot be attained, that compensation to participating members is essential.	We see the lack of a direct contractual relationship between an indirect participant and the clearing agency as a challenge. Since indirect participant involvement depends on such contractual relationship (as well as, in the case of a CCP, the segregation and portability arrangements of the CCP), the guidance cannot expressly recommend the involvement of indirect participants. To this end, the guidance has been adjusted to note that recovery plans should respect the clearing agency's frameworks for tiered participation, segregation and portability. Also, the guidance notes that, to the extent that the costs of recovery are shared less equally under some tools (e.g., VMGH), clearing agencies could, if it is financially feasible, consider post-recovery actions to restore fairness where participants have been disproportionately affected.
Approval vs. endorsement of recovery plan by Board	A commenter notes inconsistent language between the guidance and the Recovery Report. The latter requires recovery plans to be only	Consistent with the Recovery Report (para. 2.3.3), we view recovery planning as an extension of the clearing agency's regular risk

1. Theme/question	2. Summary of comments	3. Responses
of Directors	endorsed by an FMI's Board of Directors or equivalent body. The guidance requires formal approval by the Board.	management. As a result, the Canadian authorities believe that there is high value in requiring that recovery plans be approved, rather than just endorsed, by the clearing agency's Board of Directors, in order to incentivize responsible recovery planning.
Stress testing	One commenter encourages establishing minimum stress testing standards and scenarios across CCPs, the results of which ought to be shared with members as part of the FMI's recovery plan.	We note that standardized stress testing is out of scope of this guidance. Currently, the CPMI-IOSCO is examining stress testing as part of its stock-take exercise related to CCP resilience. We will monitor this work and any related developments, and assess if any Canadian specific guidance would be necessary.
Recovery tools and related issues		
Cash calls	One commenter argues that limiting the maximum cumulative value of rounds for mandatory cash calls per default event and per successive default within a period of time would allow members to prepare in advance and increase predictability.	The draft guidance noted that caps on dollar amounts should be applied and the number of rounds limited. While our position on cash calls has not changed, we believe the guidance needs to be aligned with international guidance on, and interpretations of, full allocation of losses and shortfalls for clearing agencies. As a result, we have softened the language by emphasizing the need to have measurable, manageable and controllable exposures. Clearing agencies should ensure that participant exposures to cash calls must be determinable, if not fixed, while respecting the requirements of the PFMIs to permit full allocation in recovery. The guidance has been further revised to emphasize that authorities will monitor the application of each successive round of cash calls with increased focus on systemic stability.
Variation margin gains haircutting (VMGH)	One commenter views limiting the number of rounds of VMGH available to a recovering FMI as overly restrictive. The commenter argues these limits may lead to larger cash calls, which could increase uncertainty at times of crisis. Further, this commenter argues that implementing a cap (on either time or amount) may undermine the effectiveness of this tool, and is inconsistent with international practice. Another commenter suggests that VMGH should apply to all tiers of participants, and that (contrary to the comment above) a dollar limit would be more effective than a time limit in enabling members to prepare for a major default event.	We recognize a need to acknowledge the international interpretation of the PFMI definition of full allocation while balancing participant concerns regarding predictable and manageable recovery tools. While unfettered application of VMGH is not recommended, lifting caps on VMGH is not prohibited as participant exposures to each round can be measured with reasonable confidence. In this context, cautionary language has been added to the guidance to signal to clearing agencies that participant exposures must be manageable, measurable and controllable. Moreover, the guidance highlights the need for authorities to be kept informed to allow them to monitor the application of each successive round of VMGH with increased focus on systemic stability. See also our response above regarding applying tools to all tiers of participants.

1. Theme/question	2. Summary of comments	3. Responses
Payment haircutting	Two commenters felt that the guidance did not provide an exhaustive compendium of recovery tools—for example, there are few tools described for non-CCPs other than cash calls and contract tear-up. One commenter recommends considering "payment haircutting" more broadly than VMGH, pointing to Canadian and Australian precedents for use of payment haircutting in recovery situations.	The guidance welcomes clearing agencies to include other recovery tools, where applicable, in their recovery plans, provided that they are in keeping with the criteria for the recommended tools. Language has been added to clarify that clearing agencies can also design recovery tools not explicitly listed in the guidance, where system-specific recovery needs necessitate. We consider the concept of "payment haircutting" as too vague to be explicitly included in the guidance.
Voluntary contract allocation/tear up	One commenter supports voluntary contract allocation or tear-ups but notes that it may be difficult or impossible to apply to indirect participants. The commenter also wishes to ensure that, for tear ups, corresponding accounting/netting and capital criteria will be consistent with the Canadian bank capital framework.	With regard to indirect participants, the guidance notes the allocation of losses and shortfalls in recovery should respect the clearing agency's frameworks for tiered participation, segregation and portability. The guidance also requires recovery plans to have a strong legal basis for the relevant processes and procedures with voluntary tools to manage participant expectations.
Recovery from non-default losses	One commenter encourages Canadian authorities to strengthen the language surrounding the principle that FMIs should rely on FMI-funded resources to address recovery from non-default-related losses. The commenter proposes that the guidance explicitly state that shareholders and not members should bear all of the non-default-related losses unless members voluntarily contribute (e.g. in exchange for creditor/shareholder rights). A second commenter cautioned that unprofitable business and investment lines should always be promptly addressed by FMIs, regardless of whether or not recovery has been triggered.	We believe the guidance on non-default losses is adequate.
Orderly wind down	One commenter requests more detail on the role of wind-down plans and how they differ from an FMI resolution plan. This commenter also opines that FMIs exempted from wind down requirements should be required to disclose this exemption, and that principles of defined and limited losses to surviving participants should continue to be observed. A second commenter agrees that developing a wind-down plan may not be appropriate or feasible for some critical services. It concludes that no wind-down plan should be required in those scenarios.	We note that the guidance, together with the Recovery Report, adequately cover these points. The guidance states that "developing an orderly wind-down plan may not be appropriate or operationally feasible for some critical services". While not obligatory, the guidance further notes that clearing agencies may consider developing wind-down plans for non-critical services where this could benefit a clearing agency in recovery.
Link to resolution frameworks and resolution authority, including "no-creditor-worse-off' (NCWO) policy	One commenter suggests that due to the connections between recovery and resolution, additional comments on the guidance may be necessary once more details on FMI resolution become available. The commenter argues that the listed "non-recommended tools," with the exception of forced contract tear up, should also be seen as inappropriate for a resolution scenario.	While not within the scope of the guidance, we have briefly addressed some of these comments. See also the cover Notice. We note that the text of the guidance allows clearing agencies to justify to authorities the inclusion of certain types of tools that we characterize as "requiring further justification" (previously described as "not-recommended"

1. Theme/question	2. Summary of comments	3. Responses
		tools) in recovery plans. See also our response above.
	The commenter further suggests that FMI recovery plans should include criteria that, not only measure the effectiveness of each tool so that it can be determined whether the recovery process is effective, but also when a resolution should begin. The commenter also proposes that when recovery is ineffective, FMIs should not utilize loss allocation tools to their prescribed limits. To this end, the commenter highlights that evaluative tools could be implemented, citing criteria for non-viability of financial institutions maintained by OSFI. The commenter also notes that recovery tools should have a high likelihood of success if their use is to respect the NCWO standard (see below), and that in certain circumstances, some recovery tools will not be appropriate.	The Canadian authorities believe that these comments (particularly, criteria for the non-viability of a clearing agency) are best addressed in the context of resolution and not in recovery, where determining many of these issues would be subject to a framework separate from the recovery process. The development of a clearing agency resolution framework is out of scope of this consultation process.
	One commenter believes that NCWO protection is fundamental not only to FMI resolution but also at the recovery stage because of the ability for an FMI to allocate losses from failure in recovery. It suggests that the guidance should contain provisions stating that no FMI members should be worse off during recovery than with service closure, using this as the counterfactual for the NCWO safeguard.	We note that, while NCWO considerations are mostly applicable to gone-concern, rather than going-concern, entities, we have softened language around caps on recovery tools so that recovery does not necessarily result in a mechanistic transition to resolution (e.g., when all recovery tools have been exhausted).
Mandatory clearing suspension	One commenter notes the need to consider the link between mandatory central clearing requirements and the recovery and resolution of CCPs. The commenter argues that authorities should have the ability to suspend central clearing mandates for a product in the event of a crisis involving an important CCP that clears that product.	While suspending central clearing requirements in a CCP recovery phase is unlikely, the CSA will work with the Bank of Canada and federal authorities, as well as monitor the development of international guidance, on this topic in the context of CCP resolution frameworks.

ANNEX C

ANNEX I TO COMPANION POLICY 24-102 *CLEARING AGENCY REQUIREMENTS*
[BLACKLINED VERSION – please see footnote 5 of the Notice]

Annex I to Companion Policy 24-102 *Clearing Agency Requirements* is amended by replacing the Annex in its entirety with the following:

Annex I
to Companion Policy 24-102~~CP~~ *Clearing Agency Requirements*

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~~Governance

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.

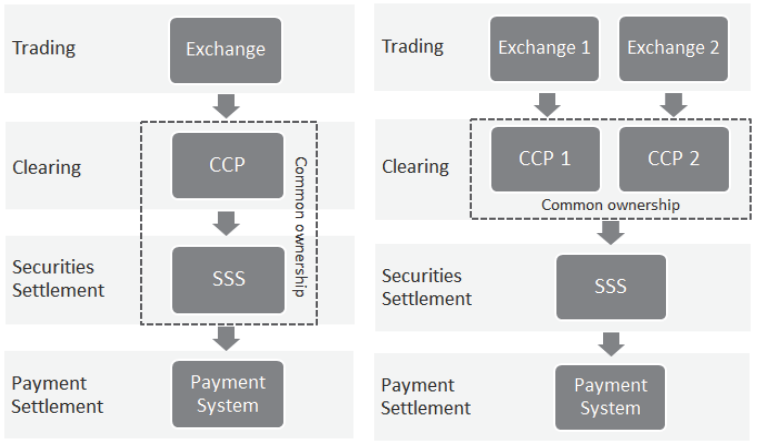
This note provides supplementary regulatory guidance for Canadian FMIs that either belong to an integrated entity or are considering consolidating with another entity to form one. It also provides additional context and clarity for Canadian FMIs on certain aspects of the PFMIs expectations pertaining to how ~~on~~ their governance arrangements ~~as it relates to supporting~~are expected to support relevant public interest considerations.

(i) 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).[1] Examples are shown in Figure 1.

(a) Figure 1: Examples of FMI integration in the value chain

Example of vertically integrated FMIs Example of horizontally integrated FMIs



[1] Committee on Payments and Market Infrastructure (CPMI) and International Organization of Securities Commissions (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.

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.

(b) Guidance within the PFMIs

The following text has been extracted directly from the PFMIs. The pertinent information is in bold.

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.[2] 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.*

(c) 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-IOSCO, "Market structure developments in the clearing industry: implications for financial stability" (2010).

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.

Measures to protect critical FMI functions

FMIs may be part of a larger consolidated entity. These FMIs must either:

- legally separate FMI-related functions3 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.

[2] 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.

[3] 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).

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.

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.

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 PFMI Principle on governance.

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.

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.[4]

(ii) 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.

[4] Liquid assets held for general business losses must be funded by equity (such as common stock, disclosed reserves, or retained earnings) rather than debt.

(a) 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.

(b) 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~~

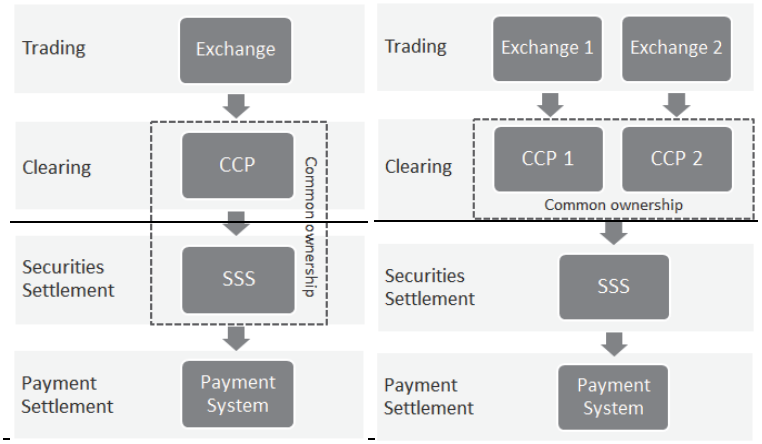
~~Consolidation, or integration, of FMI services may bring about benefits for merging FMIs; however it may also create new governance challenges. The PFMIs contain some general guidance regarding how FMIs should manage governance issues that arise in integrated entities. This note provides supplementary 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).[4] 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~~



[4] ~~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.~~

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.[2] 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.*

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).[3]

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[4] 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.

[2] 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.

[3] Available at http://www.bis.org/cpmi/publ/d92.pdf.

[4] 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).

- 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.

- 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.[5]

[5] Liquid assets held for general business losses must be funded by equity (such as common stock, disclosed reserves, or retained earnings) rather than debt.

– ***PFMI Principle 3: Framework for the comprehensive management of risks***

Box 3.1:
Joint Supplementary Guidance –
Recovery Plans

Context

In 2012, to enhance the safety and efficiency of payment, clearing and settlement systems, the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions (CPMI-IOSCO) released a set of international risk-management standards for FMIs, known as the **Principles for Financial Market Infrastructures (PFMIs)**.[1] The PFMIs provide standards regarding FMI recovery planning and orderly wind-down, which were adopted by the Bank of Canada as Standard 24 of the Bank's *Risk-Management Standards for ~~Designated~~Systemic FMIs*[2] and by the CSA as part of National Instrument 24-102.~~[3,4] The Bank's Standard~~ (NI-24 ~~is described as follows:~~-102).[5] In the context of recovery planning,

> *An FMI is expected to identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. This entails preparing appropriate plans for its recovery or orderly wind-down based on the results of that assessment.*

In October 2014, the CPMI-IOSCO released its report, **"Recovery of Financial Market Infrastructures" (the Recovery Report)**, providing additional guidance specific to the recovery of FMIs.[6] The Recovery Report explains the required structure and components of an FMI recovery plan and provides guidance on FMI critical services and recovery tools at a level sufficient to accommodate possible differences in the legal and institutional environments of each jurisdiction.

For the purpose of this guidance, FMI recovery is defined as the set of actions that an FMI can take, consistent with its rules, procedures and other ex ante contractual agreements, to address any uncovered loss, liquidity shortfall or capital inadequacy, whether arising from participant default or other causes (such as business, operational or other structural weakness), including actions to replenish any depleted pre-funded financial resources and liquidity arrangements, as necessary, to maintain the FMI's viability as a going concern and the continued provision of critical services.[7,8]

Recovery planning is not intended as a substitute for robust day-to-day risk management~~.~~ or for business continuity planning. Rather, it serves to extend and strengthen an FMI's risk-management framework, enhancing the resilience of the FMI against financial risks and bolstering confidence in the FMI's ability to function effectively even under extreme but plausible market conditions and operating environments.

Key Components of Recovery Plans

Overview of existing risk-management and legal structures

As part of their recovery plans, FMIs should include overviews of their legal entity structure and capital structure to provide context for stress scenarios and recovery activities.

FMIs should also include an overview of their existing risk-management frameworks—i.e., their **pre-recovery** risk-management frameworks and activities. As part of this overview, and to determine the relevant point(s) where standard pre-recovery risk-management frameworks are exhausted, FMIs should identify all the material risks they are exposed to and explain how they use their existing pre-recovery risk-management tools to manage these risks to a high degree of confidence.

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1 Available at http://www.bis.org/cpmi/publ/d101a.pdf.

2 See key consideration 4 of PFMI Principle 3 and key consideration 3 of PFMI Principle 15 which are adopted in the Canadian Securities Administrators' (CSA) National Instrument 24-102 *Clearing Agency Requirements*, section 3.1.

~~3 See key consideration 4 of PFMI Principle 3 and key consideration 3 of PFMI Principle 15 which are adopted in the Canadian Securities Administrators' (CSA) National Instrument 24-102 *Clearing Agency Requirements*, section 3.1.~~

~~4 The Bank of Canada's *Risk-Management Standards for Designated FMIs* is available at http://www.bankofcanada.ca/core-functions/financial-system/bank-canada-risk-management-standards-designated-fmis/.~~

5 The Bank of Canada's *Risk-Management Standards for Systemic FMIs* is available at http://www.bankofcanada.ca/core-functions/financial-system/bank-canada-risk-management-standards-systemic-fmis/.

6 Available at http://www.bis.org/cpmi/publ/d121.pdf.

7 Recovery Report, Paragraph 1.1.1

8 For a precise definition of orderly wind-down, see the Recovery Report, Paragraph 2.2.2.

Critical services[9]

In their recovery plans, FMIs should identify, in consultation with Canadian authorities and stakeholders, the services they provide that are critical to the smooth functioning of the markets that they serve and to the maintenance of financial stability. FMIs may find it useful to consider the degree of **substitutability** and **interconnectedness** of each of these critical services, specifically

- The degree of criticality of an FMI's service is likely to be high if there are no, or only a small number of, alternative service providers. Factors related to the substitutability of a service could include (i) the size of a service's market share, (ii) the existence of alternative providers that have the capacity to absorb the number of customers and transactions the FMI maintains, and (iii) the FMI participants' capability to transfer positions to the alternative provider(s).

- The degree of criticality of an FMI's service may be high if the service is significantly interconnected with other market participants, both in terms of breadth and depth, thereby increasing the likelihood of contagion if the service were to be discontinued. Potential factors to consider when determining an FMI's interconnectedness are (i) what services it provides to other entities and (ii) which of those services are critical for other entities to function.

Stress scenarios[10]

In their recovery plans, FMIs should identify scenarios that may prevent them from being able to provide their critical services as a going concern. Stress scenarios should be focused on the risks an FMI faces from its payment, clearing and settlement activity. An FMI should then consider stress scenarios that cause financial stress in excess of the capacity of its existing pre-recovery risk controls, thereby ~~pushing~~placing the FMI into recovery. An FMI should organize stress scenarios by the types of risk it faces; for each stress scenario, the FMI should clearly explain the following:

- the assumptions regarding market conditions and the state of the FMI within the stress scenario, accounting for the differences that may exist depending on whether the stress scenario is systemic or idiosyncratic;

- the estimated impact of a stress scenario on the FMI, its participants, participants' clients and other stakeholders; and

- the extent to which an FMI's existing pre-recovery risk-management tools are insufficient to withstand the impacts of realized risks in a recovery stress scenario and the value of the loss and/or of the negative shock required to generate a gap between existing risk-management tools and the losses associated with the realized risks.

Triggers for recovery

For each stress scenario, FMIs should identify the triggers that would move them from their pre-recovery risk-management activities (e.g., those found in a CCP's default waterfall) to recovery. These triggers should be both qualified (i.e., outlined) and, where relevant, quantified to demonstrate a point at which recovery plans will be implemented without ambiguity or delay.
While the boundary between pre-recovery risk-management activities and recovery can be clear (for example, when pre-funded resources are fully depleted), judgment may be needed in some cases. When this boundary is not clear, FMIs should lay out in their recovery plans how they will make decisions.[11] This includes detailing in advance their communication plans, as well as the escalation process associated with their decision-making procedures. They should also specify the decision-makers responsible for each step of the escalation process to ensure that there is adequate time for recovery tools to be implemented if required.

More generally, it is important to identify and place the triggers for recovery early enough in a stress scenario to allow for sufficient time to implement recovery tools~~.~~ described in the recovery plan. Triggers placed too late in a scenario will impede the effective rollout of these tools and hamper recovery efforts. Overall, in determining the moment when recovery should commence, and especially where there is uncertainty around this juncture, an FMI should be prudent in its actions and err on the side of caution.

Selection and ~~Implementation~~Application of Recovery Tools[12]

A comprehensive plan for recovery

The success of a recovery plan relies on a comprehensive set of tools that can be effectively ~~implemented~~applied during recovery. The applicability of these tools and their contribution to recovery varies by system, stress event and the order in which they are applied.

9 Recovery Report, Paragraphs 2.4.2–2.4.4

10 Recovery Report, Paragraph 2.4.5

11 Recovery Report, Paragraph 2.4.8

12 Recovery Report, Paragraph 2.3.6 – 2.3.7 and 2.5.6 and Paragraphs 3.4.1 – 3.4.7

A robust recovery plan relies on a range of tools to form an adequate response to realized risks. Canadian authorities will provide feedback on the comprehensiveness of selected recovery tools when reviewing an FMI's complete recovery plan.

Characteristics of recovery tools

In providing this guidance, Canadian authorities used a broad set of criteria (described below), including those from the ~~CPMI-IOSCO~~ Recovery Report, to determine the characteristics of effective recovery tools.[13] FMIs should aim for consistency with these criteria in the selection and application of tools. In this context, recovery tools should be

- Reliable and timely in their application and have a strong legal and regulatory basis. This includes the need for FMIs to mitigate the risk that a participant may be unable or unwilling to meet a call for financial resources in a timely manner, or at all (i.e., performance risk), and to ensure that all recovery activities have a strong legal and regulatory basis.

- Measurable, manageable and controllable to ensure that they can be applied effectively while keeping in mind the objective of minimizing their negative effects on participants and the broader financial system. To this end, using tools in a manner that ~~have predictable and capped~~results in participant ~~exposure~~exposures that are determinable and fixed provides better certainty of ~~a tool's impact~~the tools' impacts on FMI participants and ~~its~~their contribution to recovery. Fairness in the allocation of uncovered losses and shortfalls, and the capacity to manage the associated costs, should also be considered.

- Transparent to participants: this should include a predefined description of each recovery tool, its purpose and the responsibilities and procedures of participants and the FMIs subject to the recovery tool's application to effectively manage participants' expectations. Transparency also mitigates performance risk by detailing the obligations and procedures of FMIs and participants beforehand to support the timely and effective rollout of recovery tools.

- Designed to create appropriate incentives for sound risk management and encourage voluntary participation in recovery to the greatest extent possible. This ~~includes~~may include distributing post-recovery proceeds to participants that supported the FMI through the recovery process.

Systemic stability

Certain tools may have serious consequences for participants and for the stability of financial markets more generally. FMIs should use prudence and judgment in the selection of appropriate tools. Canadian authorities are of the view that FMIs should ~~avoid~~ be cautious in using tools that can create uncapped, unpredictable or ill-defined participant exposures, and which could create uncertainty and disincentives to participate in an FMI. Any such use would need to be carefully justified. Participants' ability to predict and manage their exposures to recovery tools is important, both for their own stability and for the stability of the indirect participants of an FMI.

In assessing FMI recovery plans, Canadian authorities are concerned with the possibility of systemic disruptions from the use of certain tools or tools that pose unquantifiable risks to participants. ~~When selecting recovery tools~~When determining which recovery tools should be included in a recovery plan, and selecting and applying such tools during the recovery phase, FMIs should keep in mind the objective of minimizing their negative impacts on participants, the FMI and the broader financial system.

Recommended recovery tools

This section outlines recommended recovery tools for use in FMI recovery plans. Not all tools are applicable for the different types of FMIs (e.g., a payment system versus a central counterparty~~).~~), nor is this an exhaustive list of tools that may be available for recovery. Each FMI should use discretion when ~~selecting~~determining the most appropriate tools for inclusion in its recovery ~~plans~~plan, consistent with the considerations discussed above.

❖ **Cash calls**

Cash calls are recommended for recovery plans ~~if~~to the extent that the exposures they ~~are~~generate are fixed and determinable; for example, capped and limited to a maximum number of rounds over a specified period, established in advance. ~~The cap (on~~In this context, participant ~~exposure)~~exposures should be linked to each participant's risk-weighted level of FMI activity.

By providing predictable exposures pro-rated to a participant's risk-weighted level of activity, FMIs create incentives for better risk management on the part of participants, while giving the FMI greater certainty over the amount of resources that can be made available during recovery.

[13] Recovery Report, Paragraph 3.3.1

Since cash calls rely on contingent resources held by FMI participants, there is a risk that they may not be honoured, reducing their effectiveness as a recovery tool. The management of participants' expectations, especially ~~placing~~through the placement of clear limits on participant exposure, can mitigate this concern.

Cash calls can be designed in multiple ways to structure incentives, vary their impacts on participants and respond to different stress scenarios. When designing cash calls, FMIs should, to the greatest extent possible, seek to minimize the negative consequences of the tool's use.

❖ **Variation margin gains haircutting (VMGH)**

VMGH is recommended for recovery plans ~~if its use is limited to a maximum number of rounds that are predefined by the FMI.~~because participant exposure under this tool can be measured with reasonable confidence, as it is tied to the level of risk held in the variation margin (VM) fund and the potential for gains. Where recovery plans allow for multiple rounds of VMGH, Canadian authorities will consider the impact of each successive round of haircutting with increasing focus on systemic stability.

VMGH relies on participant resources posted at the FMI as variation margin (VM). Where the price movements of underlying instruments create sufficient VM gains for use in recovery, VMGH provides an FMI with a reliable and timely source of financial resources without the performance risk that is associated with tools reliant on resources held by participants.

VMGH assigns losses and shortfalls only to participants with net position gains; as a result, the pro rata financial burden is higher for these participants. The negative effects of VMGH can also be compounded for participants who rely on variation margin gains to honour obligations outside the FMI.

~~Participant exposure under VMGH can be measured with reasonable confidence since it is tied to the level of risk held in the VM fund and the potential for gains. By specifying the maximum number of rounds that VMGH can be applied, an FMI will limit this exposure, providing better predictability of the tool's impact.~~FMIs should seek to minimize these negative effects to the greatest extent possible.

❖ **Voluntary contract allocation**

To recover from an unmatched book caused by a participant default, a CCP can use its powers to allocate unmatched contracts.[14] In the context of recovery, contract allocation ~~should only be applied~~is encouraged on a voluntary basis~~.~~ –for example, by auction. Voluntary contract allocation ~~(e.g., by auction)~~ addresses unmatched positions while taking participant welfare into account, since only participants who are willing to take on positions will participate.

The reliance on a voluntary process, such as an auction, introduces the risk that not all positions will be matched or that the auction process is not carried out in a timely manner. Defining the responsibilities and procedures for voluntary contract allocation (e.g., the auction rules) in advance will mitigate this risk and increase the reliability of the tool. To ensure that there is adequate participation in an auction process, FMIs should create incentives for participants to take on unmatched positions. FMIs may also wish to consider expanding the auction beyond direct participants to increase the chances that all positions will be matched.

❖ **Voluntary contract tear-up**

Since eliminating positions can help re-establish a matched book, Canadian authorities view voluntary contract tear-up as a potentially effective tool for FMI recovery. ~~However, to the extent that the termination of an incomplete trade represents a disruption of a critical FMI service (albeit on a limited and intended basis), it can be too invasive to apply. Where contract tear-up is included in a recovery plan, FMIs should keep this in mind and perform tear-up only on a voluntary basis.~~ To this end, FMIs may want to consider using incentives to encourage voluntary tear-up during recovery.[15] While contract tear-up undertaken on a voluntary basis is a recommended tool, the forced termination of an incomplete trade may represent a disruption of a critical FMI service, and can be intrusive to apply (see the section "Tools requiring further justification" for a discussion of forced contract tear-up).

To the extent that ~~a~~ voluntary contract tear-up ~~still disrupts~~may disrupt critical FMI services, it can produce disincentives to participate in an FMI. There should be a strong legal basis for the relevant processes and procedures when voluntary

[14] A CCP "matched book" occurs when ~~there~~a position taken on by the CCP with one clearing member is offset by an ~~equal distribution of assets and liabilities. In the context of a CCP, and at~~opposite position taken on with a ~~simplified level, this refers to the matched positions that form the two sides of an active trade~~second clearing member. A matched book must be maintained for the CCP to complete a trade. An unmatched book occurs when one participant defaults on its position in the trade, leaving the CCP unable to complete the transaction.

[15] Recovery Report, Paragraph 4.5.3

contract tear-up is included in a recovery plan. This will help to manage participant expectations for this tool and ensure that confidence in the FMI is maintained.

Other tools available for FMI recovery include standing third-party liquidity lines, contractual liquidity arrangements with participants, insurance against financial loss, increased contributions to pre-funded resources, and use of an FMI's own capital beyond the default waterfall. These and other tools are often already found in the pre-recovery risk-management frameworks of FMIs~~; nonetheless,~~. Canadian authorities encourage their use for recovery as well, provided they are in keeping with the criteria for effective recovery tools as found in the Recovery Report and in this guidance.[16] Where system-specific recovery needs necessitate, FMIs can also design recovery tools not explicitly listed in this guidance. The applicability of such tools will be examined by the Canadian authorities when they review the proposed recovery plan.

To the extent that the costs of recovery are shared less equally under some tools (e.g., VMGH), if it is financially feasible, FMIs could consider post-recovery actions to restore fairness where participants have been disproportionately affected. Such actions may include the repayment of participant contributions used to address liquidity shortfalls and other instruments that aim to redistribute the burden of losses allocated during recovery. It is important to note that these actions in the post-recovery period should not impair the financial viability of the FMI as a going concern.

Tools ~~not recommended for recovery plans~~requiring further justification

Due to their uncertain and potentially negative effects on the broader financial system, tools that are more intrusive or result in participant exposures that are difficult to measure, manage or control, must be carefully considered and justified with strong rationale by the FMI when they are included in a recovery plan. Canadian authorities ~~do not encourage the inclusion~~will provide their views on the suitability of ~~uncapped and unlimited rounds~~any such tools as part of ~~cash calls, unlimited rounds~~their review of ~~VMGH, involuntary (forced) contract allocation, involuntary (forced) contract tear-up, and the use of non-defaulting participants' initial margin in FMI~~ recovery plans. ~~These could potentially be used by a resolution authority but would need to be carefully assessed against their potential impact on participants and the stability of the broader financial system.~~

~~While these tools can potentially address liquidity or capital shortfalls, it could be to the detriment of the broader financial system and the viability of the FMI. Uncapped~~For example, uncapped and unlimited cash calls and unlimited rounds of VMGH can create ambiguous participant exposures, ~~while exposures to involuntary contract allocation and tear-up activities can be difficult to manage, measure and control, even when they offer incentives to assist with recovery.~~the negative effects of which must be prudently considered when including them in a recovery plan. In addition, when applied during the recovery process, Canadian authorities will monitor the application of each successive round of cash calls and VMGH with increased focus on systemic stability.

~~Where FMIs believe that these tools should be included in a recovery plan, the tools must be carefully considered and accompanied by a strong rationale for their use. Canadian authorities will provide feedback on the suitability of any such tools as part of their review of a recovery plan.~~

Tools such as involuntary (forced) contract allocation and involuntary (forced) contract tear-up create exposures that are difficult to manage, measure and control. To the extent that these tools are even more intrusive, they have the ability to pose greater risk to systemic stability. Canadian authorities acknowledge that such tools have potential utility when other recovery options are ineffective, and could possibly be used by a resolution authority, but expect FMIs to carefully assess the potential impact of such tools on participants and the stability of the broader financial system.

Canadian authorities do not encourage the use of non-defaulting participants' initial margin in FMI recovery plans considering the potential for significant negative impacts.[17] Similarly, a recovery plan should not assume any extraordinary form of public or central bank support.[18]

Recovery from non-default-related losses and structural weaknesses

Consistent with a defaulter-pays principle, an FMI should rely on FMI-funded resources to address recovery from non-default-related losses (i.e., operational and business losses on the part of an FMI), including losses arising from structural weakness.[19] To this end, FMIs should examine ways to increase the loss absorbency between the FMI's pre-recovery risk-management activities and participant-funded resources (e.g., by using FMI-funded insurance against operational risks).

[16] Recovery Report, Paragraph 3.3.1

[17] Recovery Report, Paragraph 4.2.26

[18] Recovery Report, Paragraph 2.3.1

[19] Structural weakness can be caused by factors such as poor business strategy, poor investment and custody policy, poor organizational structure, IM/IT-related obstacles, poor legal or regulatory risk frameworks, and other insufficient internal controls.

Structural weakness can be an impediment to the effective rollout of recovery tools and may itself result in non-default-related losses that are a trigger for recovery. An FMI recovery plan should ~~include a process~~identify procedures detailing how to promptly ~~identify~~detect, evaluate and address the sources of underlying structural weakness on a continuous basis (e.g., unprofitable business lines, investment losses~~) and the tools available to address them within a concrete time frame.~~).

The use of participant-funded resources to recover from non-default-related losses can lessen incentives for robust risk management within an FMI and provide disincentives to participate. If, despite these concerns, participants consider it in their interest to keep the FMI as a going concern, an FMI and its participants may agree to include a certain amount of participant-funded recovery tools to address some non-default-related losses. Under these circumstances, the FMI should clearly explain under what conditions participant resources would be used and how costs would be distributed.

Defining full allocation of uncovered losses and liquidity shortfalls

Principles 4 (credit risk)[20] and 7 (liquidity risk)[21] of the PFMIs require that FMIs should specify rules and procedures to fully allocate both uncovered losses and liquidity shortfalls caused by stress events~~, such as participant default. Rules to fully allocate all uncovered credit losses and liquidity shortfalls may be implemented either as part of recovery and/or resolution.~~. To be consistent with this requirement, **Canadian FMIs should consider various stress scenarios and have rules and procedures that allow them to fully allocate any ~~loss~~losses or liquidity ~~shortfall~~shortfalls arising from ~~those~~these stress scenarios~~.~~ ~~For additional guidance on stress scenarios and triggers for~~ , in excess of the capacity of existing pre-recovery~~, see~~ risk controls.** Tools used to address full allocation should reflect the Recovery ~~Report, Sections 2.4.5~~Report's characteristics of effective recovery tools, including the need to have them measurable, manageable and controllable to those who will bear the losses and ~~2.4.6~~liquidity shortfalls in recovery, and ~~page 3 of this document.~~for their negative impacts to be minimized to the greatest extent possible.

Legal consideration for full allocation

An FMI's rules for allocating losses and liquidity shortfalls should be supported by relevant laws and regulations. There should be a high level of certainty that rules and procedures to fully allocate all uncovered losses and liquidity shortfalls are enforceable and will not be voided, reversed or stayed.[22] This requires that Canadian FMIs design their recovery tools in compliance with Canadian laws. For example, if the FMI's loss-allocation rules involve a guarantee, Canadian law generally requires that the guaranteed amount be determinable and preferably capped by a fixed amount.[23]

FMIs should consider whether it is appropriate to involve indirect participants ~~that do not benefit from a customer protection regime~~ in the allocation of losses and shortfalls during recovery. ~~Such loss or shortfall allocation arrangement~~To the extent that it is permitted, such arrangements should have a strong legal and regulatory basis; respect the FMI's frameworks for tiered participation, segregation and portability; and involve consultation with indirect participants to ensure that all relevant concerns are taken into account.

Overall, FMIs are responsible for seeking appropriate legal advice on how their recovery tools can be designed and for ensuring that all recovery tools and activities are in compliance with the relevant laws and regulations.

Additional Considerations in Recovery Planning

Transparency and coherence[24]

An FMI should ensure that its recovery plan is coherent and transparent to all relevant levels of management within the FMI, as well as to its regulators and overseers. To do so, a recovery plan should

- contain information at the appropriate level and detail; and
- be sufficiently coherent to relevant parties within the FMI, as well as to the regulators and overseers of the FMI, to effectively support the ~~implementation~~application of the recovery tools.

[20] Under key consideration 7 of PFMI Principle 4, an FMI should establish explicit rules and procedures that fully address any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI.

[21] Under key consideration 10 of PFMI Principle 7, FMIs should establish rules and procedures that address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking or delaying the same-day settlement of payment obligations.

[22] CPMI-IOSCO Principles for Financial Market Infrastructures, Paragraph 3.1.10.

[23] The *Bank Act*, Section 414~~.~~(1) and IIROC Rule 100.14 prohibit banks and securities dealers, respectively, from providing unlimited guarantees to an FMI or a financial institution.

[24] Recovery Report, Section 2.3~~.~~

An FMI should ensure that the assumptions, preconditions, key dependencies and decision-making processes in a recovery plan are transparent and clearly identified.

Relevance and flexibility[25]

An FMI's recovery plan should thoroughly cover the information and actions relevant to extreme but plausible market conditions and other situations that would call for the use of recovery tools. An FMI should take into account the following elements when developing its recovery plan:

- the nature, size and complexity of its operations;
- its interconnectedness with other entities;
- operational functions, processes and/or infrastructure that may affect the FMI's ability to implement its recovery plan; and
- any upcoming regulatory reforms that may have the potential to affect the recovery plan.

Recovery plans should be sufficiently flexible to address a range of FMI-specific and market-wide stress events. Recovery plans should also be structured and written at a level that enables the FMI's management to assess the recovery scenario and initiate appropriate recovery procedures. As part of this expectation, the recovery plan should demonstrate that senior management has assessed the potential two-way interaction between recovery tools and the FMI's business model, legal entity structure, and business and risk-management practices.

Implementation of Recovery Plan[26]

An FMI should have credible and operationally feasible approaches to recovery planning in place and be able to act upon them in a timely manner, under both idiosyncratic and market-wide stress scenarios. To this end, recovery plans should describe

- potential impediments to ~~implementing~~applying recovery tools effectively and strategies to address them; and
- the impact of a major operational disruption.[27]

This information is important to strengthen a recovery plan's resilience to shocks and ensure that the recovery tools are actionable.

A recovery plan should also include an escalation process and the associated communication procedures that an FMI would take in a recovery situation. Such a process should define the associated timelines, objectives and key messages of each communication step, as well as the decision-makers who are responsible for it.

Consulting Canadian authorities when taking recovery actions

While the responsibility for implementing the recovery plan rests with the FMI, Canadian authorities consider it critical to be informed when an FMI triggers its recovery plan and before the ~~implementation of recovery tools and other recovery actions. This includes the authorities~~application of recovery tools and other recovery actions. To the extent an FMI intends to use a tool or take a recovery action that might have significant impact on its participants (e.g. tools requiring further justification), the FMI should consult Canadian authorities before using such tools or taking such actions to demonstrate how it has taken into account potential financial stability implications and other relevant public interest considerations. Authorities include those responsible for the regulation, supervision and oversight of the FMI, as well as any authorities who would be responsible for the FMI if it were to be put into resolution.

~~Canadian FMIs should consult Canadian authorities before implementing any and all recovery tools and actions to ensure that decisions take into account potential financial stability implications and other relevant public interest considerations. This action should occur early on and~~Relevant Canadian authorities should be informed (or consulted as appropriate) early on and interaction with authorities should be explicitly identified in the escalation process of a recovery plan. Acknowledging the speed at which an FMI may enter recovery, FMIs are encouraged to develop formal communications protocols with authorities in the event that recovery is triggered and immediate action is required.

[25] Recovery Report, Section 2.3.

[26] Recovery Report, Paragraph 2.3.9

[27] This is also related to the FMI's backup and contingency planning, which are distinct from recovery plans.

Review of Recovery Plan[28]

An FMI should include in its recovery plan a robust assessment of the recovery tools presented and detail the key factors that may affect their ~~implementation.~~application. It should recognize that, while some recovery tools may be effective in returning the FMI to viability, these tools may not have a desirable effect on its participants or the broader financial system.

A framework for testing the recovery plan (for example, through scenario exercises, periodic simulations, back-testing and other mechanisms) should be presented either in the plan itself or linked to a separate document. This impact assessment should include an analysis of the effect of ~~implementing~~applying recovery tools on financial stability and other relevant public interest considerations.[29] Furthermore, an FMI should demonstrate that the appropriate business units and levels of management have assessed the potential consequences of recovery tools on FMI participants and entities linked to the FMI.

Annual review of recovery plan

An FMI should review and, if necessary, update its recovery plan on an annual basis. The recovery plan should be subject to approval by the FMI's Board of Directors.[30] Under the following circumstances, an FMI is expected to review its recovery plan more frequently:

- if there is a significant change to market conditions or to an FMI's business model, corporate structure, services provided, risk exposures or any other element of the firm that could have a relevant impact on the recovery plan;
- if an FMI encounters a severe stress situation that requires appropriate updates to the recovery plan to address the changes in the FMI's environment or lessons learned through the stress period; and
- if the Canadian authorities request that the FMI update the recovery plan to address specific concerns or for additional clarity.

Canadian authorities will also review and provide their views on an FMI's recovery plan before it comes into effect. This is to ensure that the plan is in line with the expectations of Canadian authorities.

Orderly Wind-Down Plan as Part of a Recovery Plan[31]

Canadian authorities expect FMIs to prepare, as part of their recovery plans, for the possibility of an orderly wind-down. However, developing an orderly wind-down plan may not be appropriate or operationally feasible for some critical services. In this instance, FMIs should consult with the relevant authorities on whether they can be exempted from this requirement.

Considerations when developing an orderly wind-down plan

An FMI should ensure that its orderly wind-down plan has a strong legal basis. This includes actions concerning the transfer of contracts and services, the transfer of cash and securities positions of an FMI, or the transfer of all or parts of the rights and obligations provided in a link arrangement to a new entity.

In developing orderly wind-down plans, an FMI should elaborate on

- the scenarios where an orderly wind-down is initiated, including the services considered for wind-down;
- the expected wind-down period for each scenario, including the timeline for when the wind-down process for critical services (if applicable) would be complete; and
- measures in place to port critical services to another FMI that is identified and assessed as operationally capable of continuing the services.

Disclosure of recovery and orderly wind-down plans

An FMI should disclose sufficient information regarding the effects of its recovery and orderly wind-down plans on FMI participants and stakeholders, including how they would be affected by (i) the allocation of uncovered losses and liquidity shortfalls and (ii) any measures the CCP would take to re-establish a matched book. In terms of disclosing the degree of

28 Recovery Report, Paragraph 2.3.8

29 This is in line with key consideration 1 of PFMI Principle 2 (Governance), which states that an FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.

30 Recovery Report, Paragraph 2.3.3

31 Recovery Report, Paragraph 2.2.2

discretion an FMI has in ~~implementing~~applying recovery tools, an FMI should make it clear to FMI participants and all other stakeholders ahead of time that all recovery tools and orderly wind-down actions that an FMI can ~~implement~~apply will only be employed after consulting with the relevant Canadian authorities.

Note that recovery and orderly wind-down plans need not be two separate documents; the orderly wind-down of critical services may be a part or subset of the recovery plan. Furthermore, Canadian FMIs may consider developing orderly wind-down plans for non-critical services in the context of recovery if winding down non-critical services could assist in or benefit the recovery of the FMI.

Annex: Guidelines on the Practical Aspects of FMI Recovery Plans

The following example provides suggestions on how an FMI recovery plan could be organized.

Critical Services
Identify critical services, following guidance on factors to consider.

Risks faced by the FMI
Identify types of risks the FMI is exposed to.

Stress Scenarios
- For each type of risk, identify stress scenario(s).
- For each scenario, explain where existing risk management tools have become insufficient to cover losses or liquidity shortfalls, thereby necessitating the use of recovery tools.

Trigger
For each stress scenario, identify the trigger to enter recovery.

Recovery Tools
Provide an assessment of recovery tools, including how each tool will address uncovered losses, liquidity shortfalls and capital inadequacies.

Structural Weakness
- Identify procedures to detect, evaluate and address structural weakness, including underlying issues that must be addressed to ensure the FMI can remain a going concern post-recovery.
- ~~Identify and address structural weaknesses, including underlying issues that must be addressed to ensure the FMI can remain a going concern post-recovery.~~
- Structural weakness can be caused by factors such as poor business strategy (including unsuitable cost or fee structures), poor investment or custody policy, poor organizational structure and internal control, and other internal factors unrelated to participant default (see Recovery Report 2.4.11).

– ***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.[1]

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~~.

Minimum requirements for acceptable collateral

~~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.

[1] See PFMI Principle 5, key considerations 1 and 4.

Accepted asset categories

~~2)~~ **Assets generally judged to have minimal credit, liquidity and market risk are the following:**

- ~~i)~~ **cash;**
- ~~ii)~~ **securities issued or guaranteed[2] by the Government of Canada;[3]**
- ~~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 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.

Additional asset categories

~~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

[2] 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.

[3] ~~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.~~

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.[4]

(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.[5]

The following points clarify regulators' expectations regarding the composition of collateral accepted by an FMI.

Concentration risk limits ~~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.~~

~~1)~~ An FMI should limit assets from the broader range of acceptable assets identified in ~~section (i)3)~~the previous section ("Additional asset categories") 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)~~the previous section ("Additional asset categories") for accepting a broader range of assets as collateral apply equally to the decision over whether more stringent concentration limits should be implemented.

Specific wrong-way risk limits

~~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.

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4 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.

5 See Principle 5, key considerations 1 and 4.

Collateral monitoring

~~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.[6]

The following points clarify regulators' expectations regarding the calculation and testing of haircuts ~~by outlining:~~

~~1) requirements for calculating haircuts; and~~

~~2) requirements for testing the adequacy of haircuts and overall collateral accepted~~.

Calculating haircuts

~~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.

Verifying the adequacy of haircuts and overall collateral accepted

~~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.

[6] See PFMI Principle 5, key considerations 2 and 3.

– ***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.[1]

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~~

~~3) how the FMI should verify that its liquid resources are sufficient and adjust liquid resources when necessary~~.

Liquidity exposure coverage

~~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.[2] 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.

Total liquid resources

~~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.

[1] See PFMI Principle 7, key considerations 3, 5, 6 and 9.

[2] 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.

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.

Verifying sufficiency of liquid resources

~~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 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.[3]

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~~.

[3] See PFMI Principle 7, key considerations 4, 5 and 6

Assets in the possession, custody or control of the FMI

~~1)~~ Cash and treasury bills[4] in the possession, custody or control of an FMI are qualifying liquid resources for liquidity exposures denominated in the same currency.[5]

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.[6] 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.

Liquidity facilities

~~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;[7] and**
- **~~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.

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4 "Treasury bills" refers to bonds issued by the Government of Canada and the U.S. Treasury with a maturity of one year or less.

5 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.

6 "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.

7 The Liquidity providers should not be affiliates to be considered independent.

– ***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 PFMI 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 PFMI 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[1] 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.

[1] 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.

- **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 PFMI 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.*

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.[2]

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.

[2] 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.

– ***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.[1]

(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 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.[2]

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.[3]

(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).

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1 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.

2 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.

3 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).

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 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.[4]

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:

[4] 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.

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.

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.

(i) 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, PFMI 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),[1] and the Public quantitative disclosure standards for central counterparties (the Quantitative Disclosure Standards).[2] 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.

(ii) 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.

1 Committee on Payments and Market Infrastructures and Technical Committee of the International Organization of Securities Commissions (CPMI-IOSCO), "Principles for financial market infrastructures: disclosure framework and assessment methodology" (December 2012).~~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.~~

2 Committee on Payments and Market Infrastructures and Technical Committee of the International Organization of Securities Commissions (CPMI-IOSCO), "Public quantitative disclosure standards for central counterparties" (February 2015).~~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[3] 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.[4] 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.[5] 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.[6] 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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3 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.

4 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.

5 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.

6 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.

ANNEX D

ANNEX 1 TO COMPANION POLICY 24-102 *CLEARING AGENCY REQUIREMENTS*

Annex I to Companion Policy 24-102 *Clearing Agency Requirements* is amended by replacing the Annex in its entirety with the following:

Annex I
to Companion Policy 24-102 *Clearing Agency Requirements*

Joint Supplementary Guidance
Developed by the Bank of Canada and Canadian Securities Administrators

– *PFMI Principle 2: Governance*

Box 2.1:
Joint Supplementary Guidance – Governance

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.

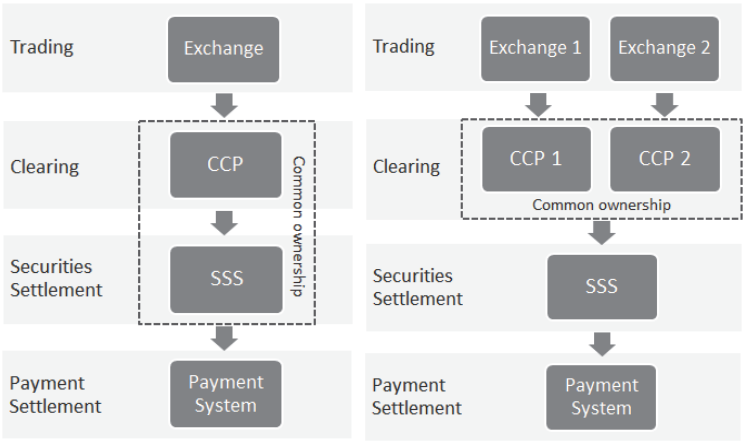
This note provides supplementary regulatory guidance for Canadian FMIs that either belong to an integrated entity or are considering consolidating with another entity to form one. It also provides additional context and clarity for Canadian FMIs on certain aspects of the PFMIs expectations pertaining to how their governance arrangements are expected to support relevant public interest considerations.

(i) 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).[1] Examples are shown in Figure 1.

(a) Figure 1: Examples of FMI integration in the value chain

Example of vertically integrated FMIs Example of horizontally integrated FMIs



[1] Committee on Payments and Market Infrastructure (CPMI) and International Organization of Securities Commissions (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.

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.

(b) Guidance within the PFMIs

The following text has been extracted directly from the PFMIs. The pertinent information is in bold.

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.[2] 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.*

(c) 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-IOSCO, "Market structure developments in the clearing industry: implications for financial stability" (2010).

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.

Measures to protect critical FMI functions

FMIs may be part of a larger consolidated entity. These FMIs must either:

- legally separate FMI-related functions[3] 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.

[2] 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.

[3] 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).

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.

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.

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 PFMI Principle on governance.

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.

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.[4]

(ii) 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

[4] Liquid assets held for general business losses must be funded by equity (such as common stock, disclosed reserves, or retained earnings) rather than debt.

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.

(a) Guidance within the PFMIs

The following text has been extracted directly from the PFMIs. The pertinent information is in bold.

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.

(b) 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?

– ***PFMI Principle 3: Framework for the comprehensive management of risks***

Box 3.1:
Joint Supplementary Guidance –
Recovery Plans

Context

In 2012, to enhance the safety and efficiency of payment, clearing and settlement systems, the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions (CPMI-IOSCO) released a set of international risk-management standards for FMIs, known as the **Principles for Financial Market Infrastructures (PFMIs)**.[1] The PFMIs provide standards regarding FMI recovery planning and orderly wind-down, which were adopted by the Bank of Canada as Standard 24 of the Bank's *Risk-Management Standards for Systemic FMIs*[2] and by the CSA as part of National Instrument 24-102 (NI-24-102).[3] In the context of recovery planning,

> *An FMI is expected to identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. This entails preparing appropriate plans for its recovery or orderly wind-down based on the results of that assessment.*

In October 2014, the CPMI-IOSCO released its report, **"Recovery of Financial Market Infrastructures" (the Recovery Report)**, providing additional guidance specific to the recovery of FMIs.[4] The Recovery Report explains the required structure and components of an FMI recovery plan and provides guidance on FMI critical services and recovery tools at a level sufficient to accommodate possible differences in the legal and institutional environments of each jurisdiction.

For the purpose of this guidance, FMI recovery is defined as the set of actions that an FMI can take, consistent with its rules, procedures and other ex ante contractual agreements, to address any uncovered loss, liquidity shortfall or capital inadequacy, whether arising from participant default or other causes (such as business, operational or other structural weakness), including actions to replenish any depleted pre-funded financial resources and liquidity arrangements, as necessary, to maintain the FMI's viability as a going concern and the continued provision of critical services.[5,6]

Recovery planning is not intended as a substitute for robust day-to-day risk management or for business continuity planning. Rather, it serves to extend and strengthen an FMI's risk-management framework, enhancing the resilience of the FMI against financial risks and bolstering confidence in the FMI's ability to function effectively even under extreme but plausible market conditions and operating environments.

Key Components of Recovery Plans

Overview of existing risk-management and legal structures

As part of their recovery plans, FMIs should include overviews of their legal entity structure and capital structure to provide context for stress scenarios and recovery activities.

FMIs should also include an overview of their existing risk-management frameworks—i.e., their **pre-recovery** risk-management frameworks and activities. As part of this overview, and to determine the relevant point(s) where standard pre-recovery risk-management frameworks are exhausted, FMIs should identify all the material risks they are exposed to and explain how they use their existing pre-recovery risk-management tools to manage these risks to a high degree of confidence.

Critical services[7]

In their recovery plans, FMIs should identify, in consultation with Canadian authorities and stakeholders, the services they provide that are critical to the smooth functioning of the markets that they serve and to the maintenance of financial stability.

1 Available at http://www.bis.org/cpmi/publ/d101a.pdf.

2 See key consideration 4 of PFMI Principle 3 and key consideration 3 of PFMI Principle 15 which are adopted in the Canadian Securities Administrators' (CSA) National Instrument 24-102 *Clearing Agency Requirements*, section 3.1.

3 The Bank of Canada's *Risk-Management Standards for Systemic FMIs* is available at http://www.bankofcanada.ca/core-functions/financial-system/bank-canada-risk-management-standards-systemic-fmis/.

4 Available at http://www.bis.org/cpmi/publ/d121.pdf.

5 Recovery Report, Paragraph 1.1.1

6 For a precise definition of orderly wind-down, see the Recovery Report, Paragraph 2.2.2.

7 Recovery Report, Paragraphs 2.4.2–2.4.4

FMIs may find it useful to consider the degree of **substitutability** and **interconnectedness** of each of these critical services, specifically

- The degree of criticality of an FMI's service is likely to be high if there are no, or only a small number of, alternative service providers. Factors related to the substitutability of a service could include (i) the size of a service's market share, (ii) the existence of alternative providers that have the capacity to absorb the number of customers and transactions the FMI maintains, and (iii) the FMI participants' capability to transfer positions to the alternative provider(s).

- The degree of criticality of an FMI's service may be high if the service is significantly interconnected with other market participants, both in terms of breadth and depth, thereby increasing the likelihood of contagion if the service were to be discontinued. Potential factors to consider when determining an FMI's interconnectedness are (i) what services it provides to other entities and (ii) which of those services are critical for other entities to function.

Stress scenarios[8]

In their recovery plans, FMIs should identify scenarios that may prevent them from being able to provide their critical services as a going concern. Stress scenarios should be focused on the risks an FMI faces from its payment, clearing and settlement activity. An FMI should then consider stress scenarios that cause financial stress in excess of the capacity of its existing pre-recovery risk controls, thereby placing the FMI into recovery. An FMI should organize stress scenarios by the types of risk it faces; for each stress scenario, the FMI should clearly explain the following:

- the assumptions regarding market conditions and the state of the FMI within the stress scenario, accounting for the differences that may exist depending on whether the stress scenario is systemic or idiosyncratic;

- the estimated impact of a stress scenario on the FMI, its participants, participants' clients and other stakeholders; and

- the extent to which an FMI's existing pre-recovery risk-management tools are insufficient to withstand the impacts of realized risks in a recovery stress scenario and the value of the loss and/or of the negative shock required to generate a gap between existing risk-management tools and the losses associated with the realized risks.

Triggers for recovery

For each stress scenario, FMIs should identify the triggers that would move them from their pre-recovery risk-management activities (e.g., those found in a CCP's default waterfall) to recovery. These triggers should be both qualified (i.e., outlined) and, where relevant, quantified to demonstrate a point at which recovery plans will be implemented without ambiguity or delay. While the boundary between pre-recovery risk-management activities and recovery can be clear (for example, when pre-funded resources are fully depleted), judgment may be needed in some cases. When this boundary is not clear, FMIs should lay out in their recovery plans how they will make decisions.[9] This includes detailing in advance their communication plans, as well as the escalation process associated with their decision-making procedures. They should also specify the decision-makers responsible for each step of the escalation process to ensure that there is adequate time for recovery tools to be implemented if required.

More generally, it is important to identify and place the triggers for recovery early enough in a stress scenario to allow for sufficient time to implement recovery tools described in the recovery plan. Triggers placed too late in a scenario will impede the effective rollout of these tools and hamper recovery efforts. Overall, in determining the moment when recovery should commence, and especially where there is uncertainty around this juncture, an FMI should be prudent in its actions and err on the side of caution.

Selection and Application of Recovery Tools[10]

A comprehensive plan for recovery

The success of a recovery plan relies on a comprehensive set of tools that can be effectively applied during recovery. The applicability of these tools and their contribution to recovery varies by system, stress event and the order in which they are applied.

A robust recovery plan relies on a range of tools to form an adequate response to realized risks. Canadian authorities will provide feedback on the comprehensiveness of selected recovery tools when reviewing an FMI's complete recovery plan.

8 Recovery Report, Paragraph 2.4.5

9 Recovery Report, Paragraph 2.4.8

10 Recovery Report, Paragraph 2.3.6 – 2.3.7 and 2.5.6 and Paragraphs 3.4.1 – 3.4.7

Characteristics of recovery tools

In providing this guidance, Canadian authorities used a broad set of criteria (described below), including those from the Recovery Report, to determine the characteristics of effective recovery tools.[11] FMIs should aim for consistency with these criteria in the selection and application of tools. In this context, recovery tools should be

- Reliable and timely in their application and have a strong legal and regulatory basis. This includes the need for FMIs to mitigate the risk that a participant may be unable or unwilling to meet a call for financial resources in a timely manner, or at all (i.e., performance risk), and to ensure that all recovery activities have a strong legal and regulatory basis.

- Measurable, manageable and controllable to ensure that they can be applied effectively while keeping in mind the objective of minimizing their negative effects on participants and the broader financial system. To this end, using tools in a manner that results in participant exposures that are determinable and fixed provides better certainty of the tools' impacts on FMI participants and their contribution to recovery. Fairness in the allocation of uncovered losses and shortfalls, and the capacity to manage the associated costs, should also be considered.

- Transparent to participants: this should include a predefined description of each recovery tool, its purpose and the responsibilities and procedures of participants and the FMIs subject to the recovery tool's application to effectively manage participants' expectations. Transparency also mitigates performance risk by detailing the obligations and procedures of FMIs and participants beforehand to support the timely and effective rollout of recovery tools.

- Designed to create appropriate incentives for sound risk management and encourage voluntary participation in recovery to the greatest extent possible. This may include distributing post-recovery proceeds to participants that supported the FMI through the recovery process.

Systemic stability

Certain tools may have serious consequences for participants and for the stability of financial markets more generally. FMIs should use prudence and judgment in the selection of appropriate tools. Canadian authorities are of the view that FMIs should be cautious in using tools that can create uncapped, unpredictable or ill-defined participant exposures, and which could create uncertainty and disincentives to participate in an FMI. Any such use would need to be carefully justified. Participants' ability to predict and manage their exposures to recovery tools is important, both for their own stability and for the stability of the indirect participants of an FMI.

In assessing FMI recovery plans, Canadian authorities are concerned with the possibility of systemic disruptions from the use of certain tools or tools that pose unquantifiable risks to participants. When determining which recovery tools should be included in a recovery plan, and selecting and applying such tools during the recovery phase, FMIs should keep in mind the objective of minimizing their negative impacts on participants, the FMI and the broader financial system.

Recommended recovery tools

This section outlines recommended recovery tools for use in FMI recovery plans. Not all tools are applicable for the different types of FMIs (e.g., a payment system versus a central counterparty), nor is this an exhaustive list of tools that may be available for recovery. Each FMI should use discretion when determining the most appropriate tools for inclusion in its recovery plan, consistent with the considerations discussed above.

- **Cash calls**

  Cash calls are recommended for recovery plans to the extent that the exposures they generate are fixed and determinable; for example, capped and limited to a maximum number of rounds over a specified period, established in advance. In this context, participant exposures should be linked to each participant's risk-weighted level of FMI activity.

  By providing predictable exposures pro-rated to a participant's risk-weighted level of activity, FMIs create incentives for better risk management on the part of participants, while giving the FMI greater certainty over the amount of resources that can be made available during recovery.

  Since cash calls rely on contingent resources held by FMI participants, there is a risk that they may not be honoured, reducing their effectiveness as a recovery tool. The management of participants' expectations, especially through the placement of clear limits on participant exposure, can mitigate this concern.

[11] Recovery Report, Paragraph 3.3.1

Cash calls can be designed in multiple ways to structure incentives, vary their impacts on participants and respond to different stress scenarios. When designing cash calls, FMIs should, to the greatest extent possible, seek to minimize the negative consequences of the tool's use.

❖ **Variation margin gains haircutting (VMGH)**

VMGH is recommended for recovery plans because participant exposure under this tool can be measured with reasonable confidence, as it is tied to the level of risk held in the variation margin (VM) fund and the potential for gains. Where recovery plans allow for multiple rounds of VMGH, Canadian authorities will consider the impact of each successive round of haircutting with increasing focus on systemic stability.

VMGH relies on participant resources posted at the FMI as variation margin (VM). Where the price movements of underlying instruments create sufficient VM gains for use in recovery, VMGH provides an FMI with a reliable and timely source of financial resources without the performance risk that is associated with tools reliant on resources held by participants.

VMGH assigns losses and shortfalls only to participants with net position gains; as a result, the pro rata financial burden is higher for these participants. The negative effects of VMGH can also be compounded for participants who rely on variation margin gains to honour obligations outside the FMI. FMIs should seek to minimize these negative effects to the greatest extent possible.

❖ **Voluntary contract allocation**

To recover from an unmatched book caused by a participant default, a CCP can use its powers to allocate unmatched contracts.[12] In the context of recovery, contract allocation is encouraged on a voluntary basis –for example, by auction. Voluntary contract allocation addresses unmatched positions while taking participant welfare into account, since only participants who are willing to take on positions will participate.

The reliance on a voluntary process, such as an auction, introduces the risk that not all positions will be matched or that the auction process is not carried out in a timely manner. Defining the responsibilities and procedures for voluntary contract allocation (e.g., the auction rules) in advance will mitigate this risk and increase the reliability of the tool. To ensure that there is adequate participation in an auction process, FMIs should create incentives for participants to take on unmatched positions. FMIs may also wish to consider expanding the auction beyond direct participants to increase the chances that all positions will be matched.

❖ **Voluntary contract tear-up**

Since eliminating positions can help re-establish a matched book, Canadian authorities view voluntary contract tear-up as a potentially effective tool for FMI recovery. To this end, FMIs may want to consider using incentives to encourage voluntary tear-up during recovery.[13] While contract tear-up undertaken on a voluntary basis is a recommended tool, the forced termination of an incomplete trade may represent a disruption of a critical FMI service, and can be intrusive to apply (see the section "Tools requiring further justification" for a discussion of forced contract tear-up).

To the extent that voluntary contract tear-up may disrupt critical FMI services, it can produce disincentives to participate in an FMI. There should be a strong legal basis for the relevant processes and procedures when voluntary contract tear-up is included in a recovery plan. This will help to manage participant expectations for this tool and ensure that confidence in the FMI is maintained.

Other tools available for FMI recovery include standing third-party liquidity lines, contractual liquidity arrangements with participants, insurance against financial loss, increased contributions to pre-funded resources, and use of an FMI's own capital beyond the default waterfall. These and other tools are often already found in the pre-recovery risk-management frameworks of FMIs. Canadian authorities encourage their use for recovery as well, provided they are in keeping with the criteria for effective recovery tools as found in the Recovery Report and in this guidance.[14] Where system-specific recovery needs necessitate, FMIs can also design recovery tools not explicitly listed in this guidance. The applicability of such tools will be examined by the Canadian authorities when they review the proposed recovery plan.

[12] A CCP "matched book" occurs when a position taken on by the CCP with one clearing member is offset by an opposite position taken on with a second clearing member. A matched book must be maintained for the CCP to complete a trade. An unmatched book occurs when one participant defaults on its position in the trade, leaving the CCP unable to complete the transaction.

[13] Recovery Report, Paragraph 4.5.3

[14] Recovery Report, Paragraph 3.3.1

To the extent that the costs of recovery are shared less equally under some tools (e.g., VMGH), if it is financially feasible, FMIs could consider post-recovery actions to restore fairness where participants have been disproportionately affected. Such actions may include the repayment of participant contributions used to address liquidity shortfalls and other instruments that aim to redistribute the burden of losses allocated during recovery. It is important to note that these actions in the post-recovery period should not impair the financial viability of the FMI as a going concern.

Tools requiring further justification

Due to their uncertain and potentially negative effects on the broader financial system, tools that are more intrusive or result in participant exposures that are difficult to measure, manage or control, must be carefully considered and justified with strong rationale by the FMI when they are included in a recovery plan. Canadian authorities will provide their views on the suitability of any such tools as part of their review of recovery plans.

For example, uncapped and unlimited cash calls and unlimited rounds of VMGH can create ambiguous participant exposures, the negative effects of which must be prudently considered when including them in a recovery plan. In addition, when applied during the recovery process, Canadian authorities will monitor the application of each successive round of cash calls and VMGH with increased focus on systemic stability.

Tools such as involuntary (forced) contract allocation and involuntary (forced) contract tear-up create exposures that are difficult to manage, measure and control. To the extent that these tools are even more intrusive, they have the ability to pose greater risk to systemic stability. Canadian authorities acknowledge that such tools have potential utility when other recovery options are ineffective, and could possibly be used by a resolution authority, but expect FMIs to carefully assess the potential impact of such tools on participants and the stability of the broader financial system.

Canadian authorities do not encourage the use of non-defaulting participants' initial margin in FMI recovery plans considering the potential for significant negative impacts.[15] Similarly, a recovery plan should not assume any extraordinary form of public or central bank support.[16]

Recovery from non-default-related losses and structural weaknesses

Consistent with a defaulter-pays principle, an FMI should rely on FMI-funded resources to address recovery from non-default-related losses (i.e., operational and business losses on the part of an FMI), including losses arising from structural weakness.[17] To this end, FMIs should examine ways to increase the loss absorbency between the FMI's pre-recovery risk-management activities and participant-funded resources (e.g., by using FMI-funded insurance against operational risks).

Structural weakness can be an impediment to the effective rollout of recovery tools and may itself result in non-default-related losses that are a trigger for recovery. An FMI recovery plan should identify procedures detailing how to promptly detect, evaluate and address the sources of underlying structural weakness on a continuous basis (e.g., unprofitable business lines, investment losses).

The use of participant-funded resources to recover from non-default-related losses can lessen incentives for robust risk management within an FMI and provide disincentives to participate. If, despite these concerns, participants consider it in their interest to keep the FMI as a going concern, an FMI and its participants may agree to include a certain amount of participant-funded recovery tools to address some non-default-related losses. Under these circumstances, the FMI should clearly explain under what conditions participant resources would be used and how costs would be distributed.

Defining full allocation of uncovered losses and liquidity shortfalls

Principles 4 (credit risk)[18] and 7 (liquidity risk)[19] of the PFMIs require that FMIs should specify rules and procedures to fully allocate both uncovered losses and liquidity shortfalls caused by stress events. To be consistent with this requirement, **Canadian FMIs should consider various stress scenarios and have rules and procedures that allow them to fully allocate any losses or liquidity shortfalls arising from these stress scenarios, in excess of the capacity of existing pre-recovery risk controls.** Tools used to address full allocation should reflect the Recovery Report's characteristics of effective recovery tools, including the need to have them measurable, manageable and controllable to those who will bear the losses and liquidity shortfalls in recovery, and for their negative impacts to be minimized to the greatest extent possible.

15 Recovery Report, Paragraph 4.2.26

16 Recovery Report, Paragraph 2.3.1

17 Structural weakness can be caused by factors such as poor business strategy, poor investment and custody policy, poor organizational structure, IM/IT-related obstacles, poor legal or regulatory risk frameworks, and other insufficient internal controls.

18 Under key consideration 7 of PFMI Principle 4, an FMI should establish explicit rules and procedures that fully address any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI.

19 Under key consideration 10 of PFMI Principle 7, FMIs should establish rules and procedures that address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking or delaying the same-day settlement of payment obligations.

Legal consideration for full allocation

An FMI's rules for allocating losses and liquidity shortfalls should be supported by relevant laws and regulations. There should be a high level of certainty that rules and procedures to fully allocate all uncovered losses and liquidity shortfalls are enforceable and will not be voided, reversed or stayed.[20] This requires that Canadian FMIs design their recovery tools in compliance with Canadian laws. For example, if the FMI's loss-allocation rules involve a guarantee, Canadian law generally requires that the guaranteed amount be determinable and preferably capped by a fixed amount.[21]

FMIs should consider whether it is appropriate to involve indirect participants in the allocation of losses and shortfalls during recovery. To the extent that it is permitted, such arrangements should have a strong legal and regulatory basis; respect the FMI's frameworks for tiered participation, segregation and portability; and involve consultation with indirect participants to ensure that all relevant concerns are taken into account.

Overall, FMIs are responsible for seeking appropriate legal advice on how their recovery tools can be designed and for ensuring that all recovery tools and activities are in compliance with the relevant laws and regulations.

Additional Considerations in Recovery Planning

Transparency and coherence[22]

An FMI should ensure that its recovery plan is coherent and transparent to all relevant levels of management within the FMI, as well as to its regulators and overseers. To do so, a recovery plan should

- contain information at the appropriate level and detail; and
- be sufficiently coherent to relevant parties within the FMI, as well as to the regulators and overseers of the FMI, to effectively support the application of the recovery tools.

An FMI should ensure that the assumptions, preconditions, key dependencies and decision-making processes in a recovery plan are transparent and clearly identified.

Relevance and flexibility[23]

An FMI's recovery plan should thoroughly cover the information and actions relevant to extreme but plausible market conditions and other situations that would call for the use of recovery tools. An FMI should take into account the following elements when developing its recovery plan:

- the nature, size and complexity of its operations;
- its interconnectedness with other entities;
- operational functions, processes and/or infrastructure that may affect the FMI's ability to implement its recovery plan; and
- any upcoming regulatory reforms that may have the potential to affect the recovery plan.

Recovery plans should be sufficiently flexible to address a range of FMI-specific and market-wide stress events. Recovery plans should also be structured and written at a level that enables the FMI's management to assess the recovery scenario and initiate appropriate recovery procedures. As part of this expectation, the recovery plan should demonstrate that senior management has assessed the potential two-way interaction between recovery tools and the FMI's business model, legal entity structure, and business and risk-management practices.

Implementation of Recovery Plan[24]

An FMI should have credible and operationally feasible approaches to recovery planning in place and be able to act upon them in a timely manner, under both idiosyncratic and market-wide stress scenarios. To this end, recovery plans should describe

[20] CPMI-IOSCO Principles for Financial Market Infrastructures, Paragraph 3.1.10

[21] The Bank Act, Section 414(1) and IIROC Rule 100.14 prohibit banks and securities dealers, respectively, from providing unlimited guarantees to an FMI or a financial institution.

[22] Recovery Report, Section 2.3

[23] Recovery Report, Section 2.3

[24] Recovery Report, Paragraph 2.3.9

- potential impediments to applying recovery tools effectively and strategies to address them; and
- the impact of a major operational disruption.[25]

This information is important to strengthen a recovery plan's resilience to shocks and ensure that the recovery tools are actionable.

A recovery plan should also include an escalation process and the associated communication procedures that an FMI would take in a recovery situation. Such a process should define the associated timelines, objectives and key messages of each communication step, as well as the decision-makers who are responsible for it.

Consulting Canadian authorities when taking recovery actions

While the responsibility for implementing the recovery plan rests with the FMI, Canadian authorities consider it critical to be informed when an FMI triggers its recovery plan and before the application of recovery tools and other recovery actions. To the extent an FMI intends to use a tool or take a recovery action that might have significant impact on its participants (e.g. tools requiring further justification), the FMI should consult Canadian authorities before using such tools or taking such actions to demonstrate how it has taken into account potential financial stability implications and other relevant public interest considerations. Authorities include those responsible for the regulation, supervision and oversight of the FMI, as well as any authorities who would be responsible for the FMI if it were to be put into resolution.

Relevant Canadian authorities should be informed (or consulted as appropriate) early on and interaction with authorities should be explicitly identified in the escalation process of a recovery plan. Acknowledging the speed at which an FMI may enter recovery, FMIs are encouraged to develop formal communications protocols with authorities in the event that recovery is triggered and immediate action is required.

Review of Recovery Plan[26]

An FMI should include in its recovery plan a robust assessment of the recovery tools presented and detail the key factors that may affect their application. It should recognize that, while some recovery tools may be effective in returning the FMI to viability, these tools may not have a desirable effect on its participants or the broader financial system.

A framework for testing the recovery plan (for example, through scenario exercises, periodic simulations, back-testing and other mechanisms) should be presented either in the plan itself or linked to a separate document. This impact assessment should include an analysis of the effect of applying recovery tools on financial stability and other relevant public interest considerations.[27] Furthermore, an FMI should demonstrate that the appropriate business units and levels of management have assessed the potential consequences of recovery tools on FMI participants and entities linked to the FMI.

Annual review of recovery plan

An FMI should review and, if necessary, update its recovery plan on an annual basis. The recovery plan should be subject to approval by the FMI's Board of Directors.[28] Under the following circumstances, an FMI is expected to review its recovery plan more frequently:

- if there is a significant change to market conditions or to an FMI's business model, corporate structure, services provided, risk exposures or any other element of the firm that could have a relevant impact on the recovery plan;
- if an FMI encounters a severe stress situation that requires appropriate updates to the recovery plan to address the changes in the FMI's environment or lessons learned through the stress period; and
- if the Canadian authorities request that the FMI update the recovery plan to address specific concerns or for additional clarity.

Canadian authorities will also review and provide their views on an FMI's recovery plan before it comes into effect. This is to ensure that the plan is in line with the expectations of Canadian authorities.

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25 This is also related to the FMI's backup and contingency planning, which are distinct from recovery plans.

26 Recovery Report, Paragraph 2.3.8

27 This is in line with key consideration 1 of PFMI Principle 2 (Governance), which states that an FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.

28 Recovery Report, Paragraph 2.3.3

Orderly Wind-Down Plan as Part of a Recovery Plan[29]

Canadian authorities expect FMIs to prepare, as part of their recovery plans, for the possibility of an orderly wind-down. However, developing an orderly wind-down plan may not be appropriate or operationally feasible for some critical services. In this instance, FMIs should consult with the relevant authorities on whether they can be exempted from this requirement.

Considerations when developing an orderly wind-down plan

An FMI should ensure that its orderly wind-down plan has a strong legal basis. This includes actions concerning the transfer of contracts and services, the transfer of cash and securities positions of an FMI, or the transfer of all or parts of the rights and obligations provided in a link arrangement to a new entity.

In developing orderly wind-down plans, an FMI should elaborate on

- the scenarios where an orderly wind-down is initiated, including the services considered for wind-down;
- the expected wind-down period for each scenario, including the timeline for when the wind-down process for critical services (if applicable) would be complete; and
- measures in place to port critical services to another FMI that is identified and assessed as operationally capable of continuing the services.

Disclosure of recovery and orderly wind-down plans

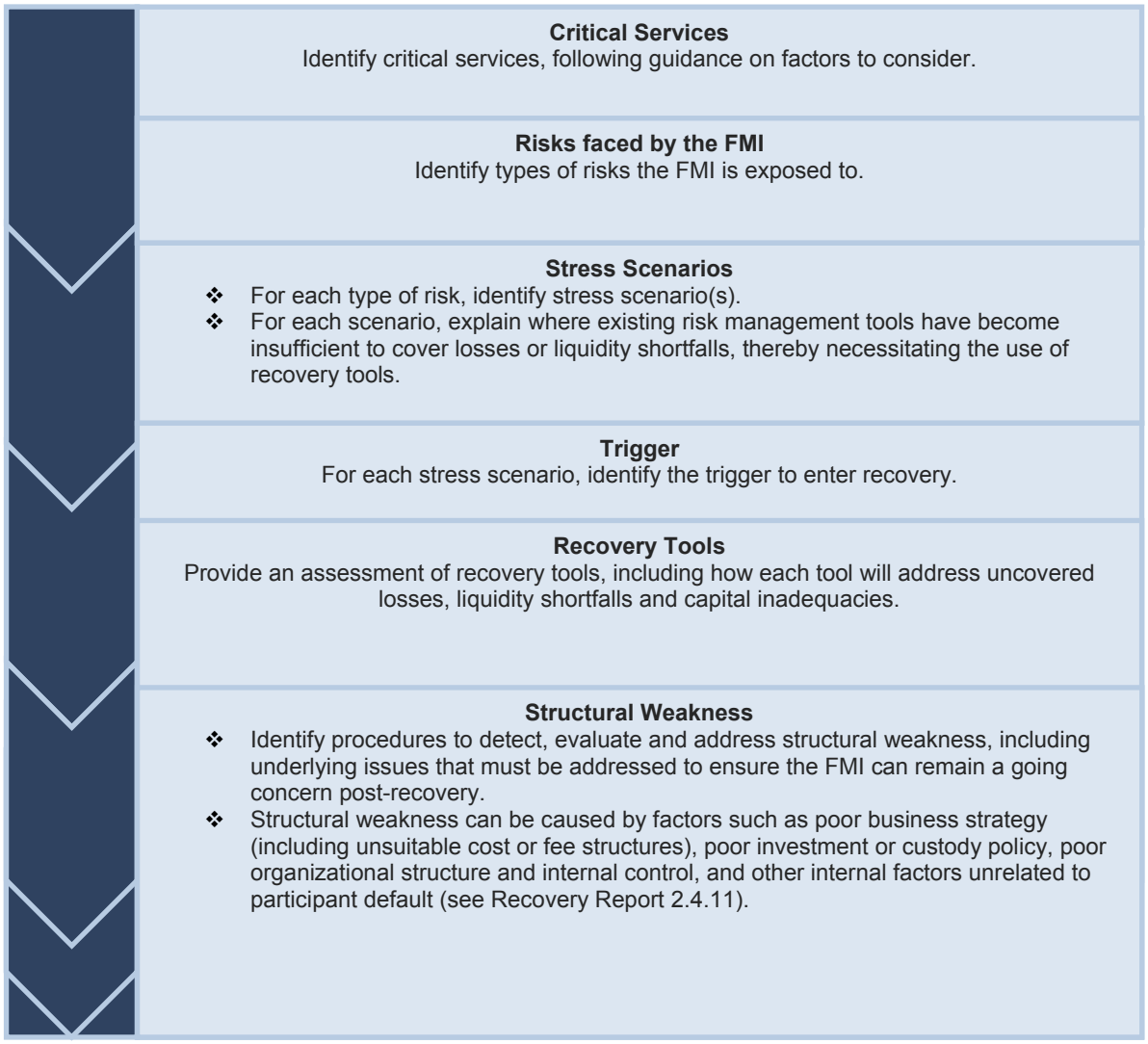
An FMI should disclose sufficient information regarding the effects of its recovery and orderly wind-down plans on FMI participants and stakeholders, including how they would be affected by (i) the allocation of uncovered losses and liquidity shortfalls and (ii) any measures the CCP would take to re-establish a matched book. In terms of disclosing the degree of discretion an FMI has in applying recovery tools, an FMI should make it clear to FMI participants and all other stakeholders ahead of time that all recovery tools and orderly wind-down actions that an FMI can apply will only be employed after consulting with the relevant Canadian authorities.

Note that recovery and orderly wind-down plans need not be two separate documents; the orderly wind-down of critical services may be a part or subset of the recovery plan. Furthermore, Canadian FMIs may consider developing orderly wind-down plans for non-critical services in the context of recovery if winding down non-critical services could assist in or benefit the recovery of the FMI.

[29] Recovery Report, Paragraph 2.2.2

Annex: Guidelines on the Practical Aspects of FMI Recovery Plans

The following example provides suggestions on how an FMI recovery plan could be organized.



– ***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.[1]

The following clarifies regulators' expectations on what is acceptable collateral.

Minimum requirements for acceptable collateral

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:

- **be freely transferable without legal, regulatory, contractual or any other constraints that would impair liquidation in a default;**
- **be marketable securities that have an active outright sale market even in stressed market conditions;**
- **have reliable price data published on a regular basis;**
- **be settled over a securities settlement system compliant with the Principles; and**
- **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.

[1] See PFMI Principle 5, key considerations 1 and 4.

Accepted asset categories

Assets generally judged to have minimal credit, liquidity and market risk are the following:

- **cash;**
- **securities issued or guaranteed[2] by the Government of Canada;**
- **securities issued or guaranteed by a provincial government; and**
- **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 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.

Additional asset categories

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:

- **securities issued by a municipal government;**
- **bankers' acceptances;**
- **commercial paper;**
- **corporate bonds;**
- **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;**
- **equity securities traded on marketplaces regulated by a member of the CSA and the Investment Industry Regulatory Organization of Canada; and**
- **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

[2] 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.

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.[3]

(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.[4]

The following points clarify regulators' expectations regarding the composition of collateral accepted by an FMI.

Concentration risk limits

An FMI should limit assets from the broader range of acceptable assets identified in the previous section ("Additional asset categories") 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 the previous section ("Additional asset categories") for accepting a broader range of assets as collateral apply equally to the decision over whether more stringent concentration limits should be implemented.

Specific wrong-way risk limits

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.

Collateral monitoring

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

[3] 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.

[4] See Principle 5, key considerations 1 and 4.

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.[5]

The following points clarify regulators' expectations regarding the calculation and testing of haircuts.

Calculating haircuts

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.

Verifying the adequacy of haircuts and overall collateral accepted

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.

[5] See PFMI Principle 5, key considerations 2 and 3.

– *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.[1]

The information provided in this section clarifies regulators' expectations of sufficient qualifying liquid resources.

Liquidity exposure coverage

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.[2] 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.

Total liquid resources

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.

When applicable, the possibility that a defaulting participant is also a liquidity provider should be taken into account.

[1] See PFMI Principle 7, key considerations 3, 5, 6 and 9.

[2] 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.

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.

Verifying sufficiency of liquid resources

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 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.[3]

The following section clarifies regulators' expectations as to what is considered a qualifying liquid resource.

Assets in the possession, custody or control of the FMI

Cash and treasury bills[4] in the possession, custody or control of an FMI are qualifying liquid resources for liquidity exposures denominated in the same currency.[5]

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.[6] 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

3 See PFMI Principle 7, key considerations 4, 5 and 6

4 "Treasury bills" refers to bonds issued by the Government of Canada and the U.S. Treasury with a maturity of one year or less.

5 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.

6 "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.

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.

Liquidity facilities

Committed liquidity facilities are qualifying liquid resources for liquidity exposures denominated in the same currency if the following criteria are met:

- **facilities are pre-arranged and fully collateralized;**
- **there is a minimum of three independent liquidity providers;[7] and**
- **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.

Uncommitted liquidity facilities are considered qualifying liquid resources for liquidity exposures in Canadian dollars if they meet the following additional criteria:

- **the liquidity provider has access to the Bank of Canada's Standing Liquidity Facility (SLF);**
- **the facility is fully collateralized with SLF-eligible collateral; and**
- **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.

[7] The Liquidity providers should not be affiliates to be considered independent.

– ***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 PFMI 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:

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 PFMI 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[1] 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.

[1] 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.

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 PFMI 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.*

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.[2]

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.

[2] 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.

– ***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.[1]

(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 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.[2]

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.[3]

(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).

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1 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.

2 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.

3 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).

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 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.[4]

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.

[4] 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.

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.

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.

(i) 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, PFMI 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),[1] and the Public quantitative disclosure standards for central counterparties (the Quantitative Disclosure Standards).[2] 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.

(ii) 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.

Timing

FMIs should update and publish their Qualitative Disclosures following significant changes[3] 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.

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1 Committee on Payments and Market Infrastructures and Technical Committee of the International Organization of Securities Commissions (CPMI-IOSCO), "Principles for financial market infrastructures: disclosure framework and assessment methodology" (December 2012).

2 Committee on Payments and Market Infrastructures and Technical Committee of the International Organization of Securities Commissions (CPMI-IOSCO), "Public quantitative disclosure standards for central counterparties" (February 2015).

3 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.

(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.[4] 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.[5] 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.[6] 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.

[4] 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.

[5] 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.

[6] 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.

5.1.2 Amendments to NI 45-106 Prospectus Exemptions

Amendments to
National Instrument 45-106 *Prospectus Exemptions*

1. National Instrument 45-106 Prospectus Exemptions is amended by this Instrument.

2. The Instrument is amended by adding the following section:

1.8 Designation of insider – For the purpose of this Instrument, in Ontario, the following classes of persons are designated as insiders:

(a) a director or an officer of an issuer;

(b) a director or an officer of a person that is an insider or a subsidiary of an issuer;

(c) a person that has

(i) beneficial ownership of, or control or direction over, directly or indirectly, securities of an issuer carrying more than 10% of the voting rights attached to all the issuer's outstanding voting securities, excluding, for the purpose of the calculation of the percentage held, any securities held by the person as underwriter in the course of a distribution, or

(ii) a combination of beneficial ownership of, and control or direction over, directly or indirectly, securities of an issuer carrying more than 10% of the voting rights attached to all the issuer's outstanding voting securities, excluding, for the purpose of the calculation of the percentage held, any securities held by the person as underwriter in the course of a distribution;

(d) an issuer that has purchased, redeemed or otherwise acquired a security of its own issue, for so long as it continues to hold that security.

3. Subsection 6.1(1) is amended by adding "completed***" before "***report if they make the distribution***".***

4. Subsection 6.2(2) is amended by replacing "financial year-end of the investment fund***" with "***end of the calendar year***".***

5. Section 6.3 is amended by

(a) replacing subsection (1) with the following:

(1) The required form of report under section 6.1 [*Report of exempt distribution*] is Form 45-106F1***, and***

(b) deleting "or, in British Columbia, Form 45-106F6***" from subsection (2).***

6. Section 6.6 is repealed.

7. The Instrument is amended by adding the following section:

8.4.3 Transition – investment funds – required form of report – Despite section 6.3, an investment fund that files a report on or before the date required by subsection 6.2(2) for a distribution that occurred before January 1, 2017 may file a report prepared in accordance with the version of Form 45-106F1 in force on June 29, 2016.

8. Form 45-106F1 is repealed and the following substituted:

[Editor's Note: Form 45-106F1 is reproduced on separately numbered pages.]

Form 45-106F1 *Report of Exempt Distribution*

A. General Instructions

1. Filing instructions

An issuer or underwriter that is required to file a report of exempt distribution and pay the applicable fee must file the report and pay the fee as follows:

- **In British Columbia** – through BCSC eServices at http://www.bcsc.bc.ca.
- **In Ontario** – through the online e-form available at http://www.osc.gov.on.ca.
- **In all other jurisdictions** – through the System for Electronic Document Analysis and Retrieval (SEDAR) in accordance with National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)* if required, or otherwise with the securities regulatory authority or regulator, as applicable, in the applicable jurisdictions at the addresses listed at the end of this form.

The issuer or underwriter must file the report in a jurisdiction of Canada if the distribution occurs in the jurisdiction. If a distribution is made in more than one jurisdiction of Canada, the issuer or underwriter may satisfy its obligation to file the report by completing a single report identifying all purchasers, and file the report in each jurisdiction of Canada in which the distribution occurs. Filing fees payable in a particular jurisdiction are not affected by identifying all purchasers in a single report.

In order to determine the applicable fee in a particular jurisdiction of Canada, consult the securities legislation of that jurisdiction.

2. Issuers located outside of Canada

If an issuer located outside of Canada determines that a distribution has taken place in a jurisdiction of Canada, include information about purchasers resident in that jurisdiction only.

3. Multiple distributions

An issuer may use one report for multiple distributions occurring within 10 days of each other, provided the report is filed on or before the 10th day following the first distribution date. However, an investment fund issuer that is relying on the exemptions set out in subsection 6.2(2) of NI 45-106 may file the report annually in accordance with that subsection.

4. References to purchaser

References to a purchaser in this form are to the beneficial owner of the securities.

However, if a trust company, trust corporation, or registered adviser described in paragraph (p) or (q) of the definition of "accredited investor" in section 1.1 of NI 45-106 has purchased the securities on behalf of a fully managed account, provide information about the trust company, trust corporation or registered adviser only; do not include information about the beneficial owner of the fully managed account.

5. References to issuer

References to "issuer" in this form include an investment fund issuer and a non-investment fund issuer, unless otherwise specified.

6. Investment fund issuers

If the issuer is an investment fund, complete Items 1-3, 6-8, 10, 11 and Schedule 1 of this form.

7. Mortgage investment entities

If the issuer is a mortgage investment entity, complete all applicable items of this form other than Item 6.

8. Language

The report must be filed in English or in French. In Québec, the issuer or underwriter must comply with linguistic rights and obligations prescribed by Québec law.

9. Currency

All dollar amounts in the report must be in Canadian dollars. If the distribution was made or any compensation was paid in connection with the distribution in a foreign currency, convert the currency to Canadian dollars using the daily noon exchange rate of the Bank of Canada on the distribution date. If the distribution date occurs on a date when the daily noon exchange rate of the Bank of Canada is not available, convert the currency to Canadian dollars using the most recent closing exchange rate of the Bank of Canada available before the distribution date. For investment funds in continuous distribution, convert the currency to Canadian dollars using the average daily noon exchange rate of the Bank of Canada for the distribution period covered by the report.

If the Bank of Canada no longer publishes a daily noon exchange rate and closing exchange rate, convert foreign currency using the daily single indicative exchange rate of the Bank of Canada in the same manner described in each of the three scenarios above.

If the distribution was not made in Canadian dollars, provide the foreign currency in Item 7(a) of the report.

10. Date of information in report

Unless otherwise indicated in this form, provide the information as of the distribution end date.

11. Date of formation

For the date of formation, provide the date on which the issuer was incorporated, continued or organized (formed). If the issuer resulted from an amalgamation, arrangement, merger or reorganization, provide the date of the most recent amalgamation, arrangement, merger or reorganization.

12. Security codes

Wherever this form requires disclosure of the type of security, use the following security codes:

Security code	Security type
BND	Bonds
CER	Certificates *(including pass-through certificates, trust certificates)*
CMS	Common shares
CVD	Convertible debentures
CVN	Convertible notes
CVP	Convertible preferred shares
DEB	Debentures
FTS	Flow-through shares
FTU	Flow-through units
LPU	Limited partnership units
NOT	Notes *(include all types of notes except convertible notes)*
OPT	Options
PRS	Preferred shares
RTS	Rights
UBS	Units of bundled securities *(such as a unit consisting of a common share and a warrant)*
UNT	Units *(exclude units of bundled securities, include trust units and mutual fund units)*
WNT	Warrants
OTH	Other securities not included above *(if selected, provide details of security type in Item 7d)*

B. Terms used in the form

1. For the purposes of this form:

"designated foreign jurisdiction" means Australia, France, Germany, Hong Kong, Italy, Japan, Mexico, the Netherlands, New Zealand, Singapore, South Africa, Spain, Sweden, Switzerland or the United Kingdom of Great Britain and Northern Ireland;

"eligible foreign security" means a security offered primarily in a foreign jurisdiction as part of a distribution of securities in either of the following circumstances:

(a) the security is issued by an issuer
    (i) that is incorporated, formed or created under the laws of a foreign jurisdiction,
    (ii) that is not a reporting issuer in a jurisdiction of Canada,
    (iii) that has its head office outside of Canada, and
    (iv) that has a majority of the executive officers and a majority of the directors ordinarily resident outside of Canada;

(b) the security is issued or guaranteed by the government of a foreign jurisdiction;

"foreign public issuer" means an issuer where any of the following apply:

(a) the issuer has a class of securities registered under section 12 of the 1934 Act;

(b) the issuer is required to file reports under section 15(d) of the 1934 Act;

(c) the issuer is required to provide disclosure relating to the issuer and the trading in its securities to the public, to security holders of the issuer or to a regulatory authority and that disclosure is publicly available in a designated foreign jurisdiction;

"legal entity identifier" means a unique identification code assigned to the person

(a) in accordance with the standards set by the Global Legal Entity Identifier System, or

(b) that complies with the standards established by the Legal Entity Identifier Regulatory Oversight Committee for pre-legal entity identifiers;

"permitted client" has the same meaning as in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*;

"SEDAR profile" means a filer profile required under section 5.1 of National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)*.

2. For the purposes of this form, a person is connected with an issuer or an investment fund manager if either of the following applies:

(a) one of them is controlled by the other;

(b) each of them is controlled by the same person.

Form 45-106F1 *Report of Exempt Distribution*

IT IS AN OFFENCE TO MAKE A MISREPRESENTATION IN THIS REPORT

ITEM 1 – REPORT TYPE

☐ New report

☐ Amended report If amended, provide filing date of report that is being amended. ☐☐☐ (YYYY-MM-DD)

ITEM 2 – PARTY CERTIFYING THE REPORT

Indicate the party certifying the report (select only one). For guidance regarding whether an issuer is an investment fund, refer to section 1.1 of National Instrument 81-106 Investment Fund Continuous Disclosure *and the companion policy to NI 81-106.*

☐ Investment fund issuer

☐ Issuer (other than an investment fund)

☐ Underwriter

ITEM 3 – ISSUER NAME AND OTHER IDENTIFIERS

Provide the following information about the issuer, or if the issuer is an investment fund, about the fund.

Full legal name

Previous full legal name

If the issuer's name changed in the last 12 months, provide most recent previous legal name.

Website (if applicable)

If the issuer has a legal entity identifier, provide below. Refer to Part B of the Instructions for the definition of "legal entity identifier".

Legal entity identifier

ITEM 4 – UNDERWRITER INFORMATION

If an underwriter is completing the report, provide the underwriter's full legal name and firm National Registration Database (NRD) number.

Full legal name

Firm NRD number ☐☐☐☐☐☐☐ (if applicable)

If the underwriter does not have a firm NRD number, provide the head office contact information of the underwriter.

Street address

Municipality Province/State

Country Postal code/Zip code

Telephone number Website (if applicable)

ITEM 5 – ISSUER INFORMATION

If the issuer is an investment fund, do not complete Item 5. Proceed to Item 6.

a) Primary industry

Provide the issuer's North American Industry Classification Standard (NAICS) code (6 digits only) that corresponds to the issuer's primary business activity. For more information on finding the NAICS industry code go to ***Statistics Canada's NAICS industry search tool****.*

NAICS industry code | | | | | | |

If the issuer is in the ***mining industry,*** *indicate the stage of operations. This does not apply to issuers that provide services to issuers operating in the mining industry. Select the category that best describes the issuer's stage of operations.*

☐ Exploration ☐ Development ☐ Production

Is the issuer's primary business to invest all or substantially all of its assets in any of the following? If yes, select all that apply.

☐ Mortgages ☐ Real estate ☐ Commercial/business debt ☐ Consumer debt ☐ Private companies

b) Number of employees

Number of employees: ☐ 0 – 49 ☐ 50 – 99 ☐ 100 – 499 ☐ 500 or more

c) SEDAR profile number

Does the issuer have a SEDAR profile?

☐ No ☐ Yes If yes, provide SEDAR profile number | | | | | | | | | |

If the issuer does not have a SEDAR profile complete Item 5(d) – (h).

d) Head office address

Street address		Province/State	
Municipality		Postal code/Zip code	
Country		Telephone number	

e) Date of formation and financial year-end

Date of formation | | | | (YYYY MM DD) Financial year-end | | | (MM DD)

f) Reporting issuer status

Is the issuer a reporting issuer in any jurisdiction of Canada? ☐ No ☐ Yes

If yes, select the jurisdictions of Canada in which the issuer is a reporting issuer.

☐ All ☐ AB ☐ BC ☐ MB ☐ NB ☐ NL ☐ NT
☐ NS ☐ NU ☐ ON ☐ PE ☐ QC ☐ SK ☐ YT

g) Public listing status

If the issuer has a CUSIP number, provide below (first 6 digits only)

CUSIP number | | | | | | |

If the issuer is publicly listed, provide the names of all exchanges on which its securities are listed. Include only the names of exchanges for which the issuer has applied for and received a listing, which excludes, for example, automated trading systems.

Exchange names | | | | |

h) Size of issuer's assets

Select the size of the issuer's assets for its most recent financial year-end (Canadian $). If the issuer has not existed for a full financial year, provide the size of the issuer's assets at the distribution end date.

☐ $0 to under $5M ☐ $5M to under $25M ☐ $25M to under $100M
☐ $100M to under $500M ☐ $500M to under $1B ☐ $1B or over

ITEM 6 – INVESTMENT FUND ISSUER INFORMATION

If the issuer is an investment fund, provide the following information.

a) Investment fund manager information

Full legal name

Firm NRD Number (if applicable)

If the investment fund manager does not have a firm NRD number, provide the head office contact information of the investment fund manager.

Street Address

Municipality | Province/State

Country | Postal code/Zip code

Telephone number | Website (if applicable)

b) Type of investment fund

Type of investment fund that most accurately identifies the issuer (select only one).

☐ Money market ☐ Equity ☐ Fixed income

☐ Balanced ☐ Alternative strategies ☐ Other (describe)

Indicate whether one or both of the following apply to the investment fund.

☐ Invests primarily in other investment fund issuers

☐ Is a UCITs Fund[1]

[1]*Undertaking for the Collective Investment of Transferable Securities funds (UCITs Funds) are investment funds regulated by the European Union (EU) directives that allow collective investment schemes to operate throughout the EU on a passport basis on authorization from one member state.*

c) Date of formation and financial year-end of the investment fund

Date of formation YYYY MM DD

Financial year-end MM DD

d) Reporting issuer status of the investment fund

Is the investment fund a reporting issuer in any jurisdiction of Canada? ☐ No ☐ Yes

If yes, select the jurisdictions of Canada in which the investment fund is a reporting issuer.

☐ All ☐ AB ☐ BC ☐ MB ☐ NB ☐ NL ☐ NT

☐ NS ☐ NU ☐ ON ☐ PE ☐ QC ☐ SK ☐ YT

e) Public listing status of the investment fund

If the investment fund has a CUSIP number, provide below (first 6 digits only).

CUSIP number

If the investment fund is publicly listed, provide the names of all exchanges on which its securities are listed. Include only the names of exchanges for which the investment fund has applied for and received a listing, which excludes, for example, automated trading systems.

Exchange names

f) Net asset value (NAV) of the investment fund

Select the NAV range of the investment fund as of the date of the most recent NAV calculation (Canadian $).

☐ $0 to under $5M ☐ $5M to under $25M ☐ $25M to under $100M

☐ $100M to under $500M ☐ $500M to under $1B ☐ $1B or over

Date of NAV calculation: YYYY MM DD

ITEM 7 – INFORMATION ABOUT THE DISTRIBUTION

If an issuer located outside of Canada completes a distribution in a jurisdiction of Canada, include in Item 7 and Schedule 1 information about purchasers resident in that jurisdiction of Canada only. Do not include in Item 7 securities issued as payment of commissions or finder's fees, which should be disclosed in Item 8. The information provided in Item 7 must reconcile with the information provided in Schedule 1 of the report.

a) Currency

Select the currency or currencies in which the distribution was made. All dollar amounts provided in the report must be in Canadian dollars.

☐ Canadian dollar ☐ US dollar ☐ Euro Other (describe) ☐

b) Distribution date(s)

State the distribution start and end dates. If the report is being filed for securities distributed on only one distribution date, provide the distribution date as both the start and end dates. If the report is being filed for securities distributed on a continuous basis, include the start and end dates for the distribution period covered by the report.

Start date ☐☐☐☐ ☐☐ ☐☐ (YYYY MM DD) End date ☐☐☐☐ ☐☐ ☐☐ (YYYY MM DD)

c) Detailed purchaser information

Complete Schedule 1 of this form for each purchaser and attach the schedule to the completed report.

d) Types of securities distributed

Provide the following information for all distributions that take place in a jurisdiction of Canada on a per security basis. Refer to Part A of the Instructions for how to indicate the security code. If providing the CUSIP number, indicate the full 9-digit CUSIP number assigned to the security being distributed.

Security code	CUSIP number (if applicable)	Description of security	Number of securities	Canadian $		
				Single or lowest price	Highest price	Total amount

e) Details of rights and convertible/exchangeable securities

If any rights (e.g. warrants, options) were distributed, provide the exercise price and expiry date for each right. If any convertible/exchangeable securities were distributed, provide the conversion ratio and describe any other terms for each convertible/exchangeable security.

Security code	Underlying security code	Exercise price (Canadian $)		Expiry date (YYYY-MM-DD)	Conversion ratio	Describe other terms (if applicable)
		Lowest	Highest			

f) Summary of the distribution by jurisdiction and exemption

State the total dollar amount of securities distributed and the number of purchasers for each jurisdiction of Canada and foreign jurisdiction where a purchaser resides and for each exemption relied on in Canada for that distribution. However, if an issuer located outside of Canada completes a distribution in a jurisdiction of Canada, include distributions to purchasers resident in that jurisdiction of Canada only.

This table requires a separate line item for: (i) each jurisdiction where a purchaser resides, (ii) each exemption relied on in the jurisdiction where a purchaser resides, if a purchaser resides in a jurisdiction of Canada, and (iii) each exemption relied on in Canada, if a purchaser resides in a foreign jurisdiction.

For jurisdictions within Canada, state the province or territory, otherwise state the country.

Province or country	Exemption relied on	Number of purchasers	Total amount (Canadian $)
	Total dollar amount of securities distributed		
	Total number of unique purchasers[2]		

[2] *In calculating the total number of unique purchasers to which the issuer distributed securities, count each purchaser only once, regardless of whether the issuer distributed multiple types of securities to, and relied on multiple exemptions for, that purchaser.*

g) Net proceeds to the investment fund by jurisdiction

If the issuer is an investment fund, provide the net proceeds to the investment fund for each jurisdiction of Canada and foreign jurisdiction where a purchaser resides.[3] If an issuer located outside of Canada completes a distribution in a jurisdiction of Canada, include net proceeds for that jurisdiction of Canada only. For jurisdictions within Canada, state the province or territory, otherwise state the country.

Province or country	Net proceeds (Canadian $)
Total net proceeds to the investment fund	

[3]"Net proceeds" means the gross proceeds realized in the jurisdiction from the distributions for which the report is being filed, less the gross redemptions that occurred during the distribution period covered by the report.

h) Offering materials - This section applies only in Saskatchewan, Ontario, Québec, New Brunswick and Nova Scotia.

If a distribution has occurred in Saskatchewan, Ontario, Québec, New Brunswick or Nova Scotia, complete the table below by listing the offering materials that are required under the prospectus exemption relied on to be filed with or delivered to the securities regulatory authority or regulator in those jurisdictions.

In Ontario, if the offering materials listed in the table are required to be filed with or delivered to the Ontario Securities Commission (OSC), attach an electronic version of the offering materials that have not been previously filed with or delivered to the OSC.

	Description	Date of document or other material (YYYY-MM-DD)	Previously filed with or delivered to regulator? (Y/N)	Date previously filed or delivered (YYYY-MM-DD)
1.				
2.				
3.				

ITEM 8 – COMPENSATION INFORMATION

Provide information for each person (as defined in NI 45-106) to whom the issuer directly provides, or will provide, any compensation in connection with the distribution. ***Complete additional copies of this page if more than one person was, or will be, compensated.***

Indicate whether any compensation was paid, or will be paid, in connection with the distribution.

☐ No ☐ Yes If yes, indicate number of persons compensated. ☐

a) Name of person compensated and registration status

Indicate whether the person compensated is a registrant.

☐ No ☐ Yes

If the person compensated is an individual, provide the name of the individual.

Full legal name of individual

Family name	First given name	Secondary given names

If the person compensated is not an individual, provide the following information.

Full legal name of non-individual

Firm NRD number ☐☐☐☐☐☐☐ (if applicable)

Indicate whether the person compensated facilitated the distribution through a funding portal or an internet-based portal.

☐ No ☐ Yes

b) Business contact information

If a firm NRD number is not provided in Item 8(a), provide the business contact information of the person being compensated.

Street address

Municipality | Province/State

Country | Postal code/Zip code

Email address | Telephone number

c) Relationship to issuer or investment fund manager

Indicate the person's relationship with the issuer or investment fund manager (select all that apply). Refer to the meaning of "connected" in Part B(2) of the Instructions and the meaning of "control" in section 1.4 of NI 45-106 for the purposes of completing this section.

☐ Connected with the issuer or investment fund manager

☐ Insider of the issuer (other than an investment fund)

☐ Director or officer of the investment fund or investment fund manager

☐ Employee of the issuer or investment fund manager

☐ None of the above

d) Compensation details

Provide details of all compensation paid, or to be paid, to the person identified in Item 8(a) in connection with the distribution. Provide all amounts in Canadian dollars. Include cash commissions, securities-based compensation, gifts, discounts or other compensation. Do not report payments for services incidental to the distribution, such as clerical, printing, legal or accounting services. An issuer is not required to ask for details about, or report on, internal allocation arrangements with the directors, officers or employees of a non-individual compensated by the issuer.

Cash commissions paid

Value of all securities distributed as compensation[4]

Security codes

Security code 1			Security code 2			Security code 3		

Describe terms of warrants, options or other rights

Other compensation[5] | Describe

Total compensation paid

☐ Check box if the person will or may receive any deferred compensation (describe the terms below)

[4]*Provide the aggregate value of all securities distributed as compensation, excluding options, warrants or other rights exercisable to acquire additional securities of the issuer. Indicate the security codes for all securities distributed as compensation, including options, warrants or other rights exercisable to acquire additional securities of the issuer.*

[5]*Do not include deferred compensation.*

ITEM 9 – DIRECTORS, EXECUTIVE OFFICERS AND PROMOTERS OF THE ISSUER

If the issuer is an investment fund, do not complete Item 9. Proceed to Item 10.

Indicate whether the issuer is any of the following (select all that apply).

☐ Reporting issuer in any jurisdiction of Canada

☐ Foreign public issuer

☐ Wholly owned subsidiary of a reporting issuer in any jurisdiction of Canada[6]

Provide name of reporting issuer _____

☐ Wholly owned subsidiary of a foreign public issuer[6]

Provide name of foreign public issuer _____

☐ Issuer distributing eligible foreign securities only to permitted clients[7]

If the issuer is at least one of the above, do not complete Item 9(a) – (c). Proceed to Item 10.

[6]*An issuer is a wholly owned subsidiary of a reporting issuer or a foreign public issuer if all of the issuer's outstanding voting securities, other than securities that are required by law to be owned by its directors, are beneficially owned by the reporting issuer or the foreign public issuer, respectively.*

[7]*Check this box if it applies to the current distribution even if the issuer made previous distributions of other types of securities to non-permitted clients. Refer to the definitions of "eligible foreign security" and "permitted client" in Part B(1) of the Instructions.*

☐ ***If the issuer is none of the above, check this box and complete Item 9(a) – (c).***

a) Directors, executive officers and promoters of the issuer

Provide the following information for each director, executive officer and promoter of the issuer. For locations within Canada, state the province or territory, otherwise state the country. For "Relationship to issuer", "D" – Director, "O" – Executive Officer, "P" – Promoter.

Organization or company name	Family name	First given name	Secondary given names	Business location of non-individual or residential jurisdiction of individual	Relationship to issuer (select all that apply)		
				Province or country	D	O	P

b) Promoter information

If the promoter listed above is not an individual, provide the following information for each director and executive officer of the promoter. For locations within Canada, state the province or territory, otherwise state the country. For "Relationship to promoter", "D" – Director, "O" – Executive Officer.

Organization or company name	Family name	First given name	Secondary given names	Residential jurisdiction of individual	Relationship to promoter (select one or both if applicable)	
				Province or country	D	O

c) Residential address of each individual

Complete Schedule 2 of this form providing the full residential address for each individual listed in Item 9(a) and (b) and attach to the completed report. Schedule 2 also requires information to be provided about control persons.

ITEM 10 – CERTIFICATION

Provide the following certification and business contact information of an officer or director of the issuer or underwriter. If the issuer or underwriter is not a company, an individual who performs functions similar to that of a director or officer may certify the report. For example, if the issuer is a trust, the report may be certified by the issuer's trustee. If the issuer is an investment fund, a director or officer of the investment fund manager (or, if the investment fund manager is not a company, an individual who performs similar functions) may certify the report if the director or officer has been authorized to do so by the investment fund.

The certification may not be delegated to an agent or other individual preparing the report on behalf of the issuer or underwriter. If the individual completing and filing the report is different from the individual certifying the report, provide their name and contact details in Item 11.

The signature on the report must be in typed form rather than handwritten form. The report may include an electronic signature provided the name of the signatory is also in typed form.

IT IS AN OFFENCE TO MAKE A MISREPRESENTATION IN THIS REPORT

By completing the information below, I certify to the securities regulatory authority or regulator that:

- I have read and understand this report; and
- all of the information provided in this report is true.

Full legal name			
	Family name	First given name	Secondary given names
Title			
Name of issuer/underwriter/ investment fund manager			
Telephone number		Email address	
Signature		Date	YYYY / MM / DD

ITEM 11 – CONTACT PERSON

Provide the following business contact information for the individual that the securities regulatory authority or regulator may contact with any questions regarding the contents of this report, if different than the individual certifying the report in Item 10.

☐ Same as individual certifying the report

Full legal name				Title	
	Family name	First given name	Secondary given names		
Name of company					
Telephone number		Email address			

Notice – Collection and use of personal information

The personal information required under this form is collected on behalf of and used by the securities regulatory authority or regulator under the authority granted in securities legislation for the purposes of the administration and enforcement of the securities legislation.

If you have any questions about the collection and use of this information, contact the securities regulatory authority or regulator in the local jurisdiction(s) where the report is filed, at the address(es) listed at the end of this form.

The attached Schedules 1 and 2 may contain personal information of individuals and details of the distribution(s). The information in Schedules 1 and 2 will not be placed on the public file of any securities regulatory authority or regulator. However, freedom of information legislation may require the securities regulatory authority or regulator to make this information available if requested.

By signing this report, the issuer/underwriter confirms that each individual listed in Schedule 1 or 2 of the report who is resident in a jurisdiction of Canada:

a) has been notified by the issuer/underwriter of the delivery to the securities regulatory authority or regulator of the information pertaining to the individual as set out in Schedule 1 or 2, that this information is being collected by the securities regulatory authority or regulator under the authority granted in securities legislation, that this information is being collected for the purposes of the administration and enforcement of the securities legislation of the local jurisdiction, and of the title, business address and business telephone number of the public official in the local jurisdiction, as set out in this form, who can answer questions about the security regulatory authority's or regulator's indirect collection of the information, and

b) has authorized the indirect collection of the information by the securities regulatory authority or regulator.

SCHEDULE 1 TO FORM 45-106F1 (CONFIDENTIAL PURCHASER INFORMATION)

Schedule 1 must be filed in the format of an Excel spreadsheet in a form acceptable to the securities regulatory authority or regulator.

The information in this schedule will not be placed on the public file of any securities regulatory authority or regulator. However, freedom of information legislation may require the securities regulatory authority or regulator to make this information available if requested.

a) General information *(provide only once)*

1. Name of issuer
2. Certification date (YYYY-MM-DD)

Provide the following information for each purchaser that participated in the distribution. For each purchaser, create separate entries for each distribution date, security type and exemption relied on for the distribution.

b) Legal name of purchaser

1. Family name
2. First given name
3. Secondary given names
4. Full legal name of non-individual *(if applicable)*

c) Contact information of purchaser

1. Residential street address
2. Municipality
3. Province/State
4. Postal code/Zip code
5. Country
6. Telephone number
7. Email address *(if available)*

d) Details of securities purchased

1. Date of distribution (YYYY-MM-DD)
2. Number of securities
3. Security code
4. Amount paid (Canadian $)

e) Details of exemption relied on

1. Rule, section and subsection number
2. If relying on section 2.3 [*Accredited investor*] of NI 45-106, provide the paragraph number in the definition of "accredited investor" in section 1.1 of NI 45-106 that applies to the purchaser. *(select only one)*
3. If relying on section 2.5 [*Family, friends and business associates*] of NI 45-106, provide:
   a. the paragraph number in subsection 2.5(1) that applies to the purchaser *(select only one)*; and
   b. if relying on paragraphs 2.5(1)(b) to (i), provide:
      i. the name of the director, executive officer, control person, or founder of the issuer or affiliate of the issuer claiming a relationship to the purchaser. *(Note: if Item 9(a) has been completed, the name of the director, executive officer or control person must be consistent with the name provided in Item 9 and Schedule 2.)*
      ii. the position of the director, executive officer, control person, or founder of the issuer or affiliate of the issuer claiming a relationship to the purchaser.
4. If relying on subsection 2.9(2) or, in Alberta, New Brunswick, Nova Scotia, Ontario, Québec, or Saskatchewan, subsection 2.9(2.1) [*Offering memorandum*] of NI 45-106 and the purchaser is an eligible investor, provide the paragraph number in the definition of "eligible investor" in section 1.1 of NI 45-106 that applies to the purchaser. (*select only one)*

f) Other information

1. Is the purchaser a registrant? (Y/N)
2. Is the purchaser an insider of the issuer? (Y/N) *(not applicable if the issuer is an investment fund)*
3. Full legal name of person compensated for distribution to purchaser. *If the person compensated is a registered firm, provide the firm NRD number only*. *(Note: the name must be consistent with name of the person compensated as provided in Item 8.)*

INSTRUCTIONS FOR SCHEDULE 1

Any securities issued as payment for commissions or finder's fees must be disclosed in Item 8 of the report, not in Schedule 1.

Details of exemption relied on – When identifying the exemption the issuer relied on for the distribution to each purchaser, refer to the rule, statute or instrument in which the exemption is provided and identify the specific section and, if applicable, subsection or paragraph. For example, if the issuer is relying on an exemption in a National Instrument, refer to the number of the National Instrument, and the subsection or paragraph number of the specific provision. If the issuer is relying on an exemption in a local blanket order, refer to the blanket order by number.

For exemptions that require the purchaser to meet certain characteristics, such as the exemption in section 2.3 [*Accredited investor*], section 2.5 [*Family, friends and business associates*] or subsection 2.9(2) or, in Alberta, New Brunswick, Nova Scotia, Ontario, Québec, or Saskatchewan, subsection 2.9(2.1) [*Offering memorandum*] of NI 45-106, provide the specific paragraph in the definition of those terms that applies to each purchaser.

Reports filed under paragraph 6.1(1)(j) [*TSX Venture Exchange offering*] of NI 45-106 – For reports filed under paragraph 6.1(1)(j) [*TSX Venture Exchange offering*] of NI 45-106, Schedule 1 needs to list the total number of purchasers by jurisdiction only, and is not required to include the name, residential address, telephone number or email address of the purchasers.

SCHEDULE 2 TO FORM 45-106F1 (CONFIDENTIAL DIRECTOR, EXECUTIVE OFFICER, PROMOTER AND CONTROL PERSON INFORMATION)

Schedule 2 must be filed in the format of an Excel spreadsheet in a form acceptable to the securities regulatory authority or regulator.

Complete the following only if Item 9(a) is required to be completed. **This schedule also requires information to be provided about control persons of the issuer at the time of the distribution.**

The information in this schedule will not be placed on the public file of any securities regulatory authority or regulator. However, freedom of information legislation may require the securities regulatory authority or regulator to make this information available if requested.

a) General information *(provide only once)*

1. Name of issuer
2. Certification date (YYYY-MM-DD)

b) Business contact information of Chief Executive Officer *(if not provided in Item 10 or 11 of report)*

1. Email address
2. Telephone number

c) Residential address of directors, executive officers, promoters and control persons of the issuer

Provide the following information for each individual who is a director, executive officer, promoter or control person of the issuer at the time of the distribution. If the promoter or control person is not an individual, provide the following information for each director and executive officer of the promoter and control person. (Note: names of directors, executive officers and promoters must be consistent with the information in Item 9 of the report, if required to be provided.)

1. Family name
2. First given name
3. Secondary given names
4. Residential street address
5. Municipality
6. Province/State
7. Postal code/Zip code
8. Country
9. Indicate whether the individual is a control person, or a director and/or executive officer of a control person (*if applicable*)

d) Non-individual control persons *(if applicable)*

If the control person is not an individual, provide the following information. For locations within Canada, state the province or territory, otherwise state the country.

1. Organization or company name
2. Province or country of business location

Questions:

Refer any questions to:

Alberta Securities Commission
Suite 600, 250 – 5th Street SW
Calgary, Alberta T2P 0R4
Telephone: (403) 297-6454
Toll free in Canada: 1-877-355-0585
Facsimile: (403) 297-2082

British Columbia Securities Commission
P.O. Box 10142, Pacific Centre
701 West Georgia Street
Vancouver, British Columbia V7Y 1L2
Inquiries: (604) 899-6854
Toll free in Canada: 1-800-373-6393
Facsimile: (604) 899-6581
Email: inquiries@bcsc.bc.ca

The Manitoba Securities Commission
500 – 400 St. Mary Avenue
Winnipeg, Manitoba R3C 4K5
Telephone: (204) 945-2548
Toll free in Manitoba 1-800-655-5244
Facsimile: (204) 945-0330

Financial and Consumer Services Commission (New Brunswick)
85 Charlotte Street, Suite 300
Saint John, New Brunswick E2L 2J2
Telephone: (506) 658-3060
Toll free in Canada: 1-866-933-2222
Facsimile: (506) 658-3059
Email: info@fcnb.ca

Government of Newfoundland and Labrador
Financial Services Regulation Division
P.O. Box 8700
Confederation Building
2nd Floor, West Block
Prince Philip Drive
St. John's, Newfoundland and Labrador A1B 4J6
Attention: Director of Securities
Telephone: (709) 729-4189
Facsimile: (709) 729-6187

Government of the Northwest Territories
Office of the Superintendent of Securities
P.O. Box 1320
Yellowknife, Northwest Territories X1A 2L9
Attention: Deputy Superintendent, Legal & Enforcement
Telephone: (867) 920-8984
Facsimile: (867) 873-0243

Nova Scotia Securities Commission
Suite 400, 5251 Duke Street
Duke Tower
P.O. Box 458
Halifax, Nova Scotia B3J 2P8
Telephone: (902) 424-7768
Facsimile: (902) 424-4625

Government of Nunavut
Department of Justice
Legal Registries Division
P.O. Box 1000, Station 570
1st Floor, Brown Building
Iqaluit, Nunavut X0A 0H0
Telephone: (867) 975-6590
Facsimile: (867) 975-6594

Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario M5H 3S8
Telephone: (416) 593- 8314
Toll free in Canada: 1-877-785-1555
Facsimile: (416) 593-8122
Email: exemptmarketfilings@osc.gov.on.ca
Public official contact regarding indirect collection of information: Inquiries Officer

Prince Edward Island Securities Office
95 Rochford Street, 4th Floor Shaw Building
P.O. Box 2000
Charlottetown, Prince Edward Island C1A 7N8
Telephone: (902) 368-4569
Facsimile: (902) 368-5283

Autorité des marchés financiers
800, Square Victoria, 22e étage
C.P. 246, Tour de la Bourse
Montréal, Québec H4Z 1G3
Telephone: (514) 395-0337 or 1-877-525-0337
Facsimile: (514) 873-6155 (For filing purposes only)
Facsimile: (514) 864-6381 (For privacy requests only)
Email: financementdessocietes@lautorite.qc.ca (For corporate finance issuers); fonds_dinvestissement@lautorite.qc.ca (For investment fund issuers)

Financial and Consumer Affairs Authority of Saskatchewan
Suite 601 - 1919 Saskatchewan Drive
Regina, Saskatchewan S4P 4H2
Telephone: (306) 787-5879
Facsimile: (306) 787-5899

Government of Yukon
Department of Community Services
Law Centre, 3rd Floor
2130 Second Avenue
Whitehorse, Yukon Y1A 5H6
Telephone: (867) 667-5314
Facsimile: (867) 393-6251

9. Form 45-106F6 is repealed.

10. This Instrument comes into force on June 30, 2016.

5.1.3 Changes to Companion Policy 45-106 Prospectus Exemptions

The following text shows, by way of blackline, changes to Companion Policy 45-106 *Prospectus Exemptions* that will take effect upon the coming into force of the rule amendments to National Instrument 45-106 *Prospectus Exemptions*. Additions are represented with underlined text and deletions are represented with strikethrough text.

PART 5 – FORMS

5.1 Report of exempt distribution

(1) Requirement to file

An issuer that has distributed a security of its own issue under any of the prospectus exemptions listed in section 6.1 of NI 45-106 is required to file a report of exempt distribution, on or before the 10th day after the distribution. Alternatively, if an underwriter distributes securities acquired under section 2.33 of NI 45-106, either the issuer or the underwriter may complete and file the form. If there is a syndicate of underwriters, the lead underwriter may file the form on behalf of the syndicate or each underwriter may file a form relating to the portion of the distribution it was responsible for. The required form of report is Form 45-106F1 *Report of Exempt Distribution* ~~in all jurisdictions except British Columbia. In British Columbia, the required form of report is Form 45-106F6 *British Columbia Report of Exempt Distribution*.~~

In determining if it is required to file a report in a particular jurisdiction, the issuer or underwriter should consider the following questions:

(a) Is there a distribution in the jurisdiction? (Please refer to the securities legislation and securities directions of the jurisdiction for guidance, if any, on when a distribution occurs in the jurisdiction.)

(b) If there is a distribution in the jurisdiction, what exemption from the prospectus requirement is the issuer relying on for the distribution of the security?

(c) Does the exemption referred to in paragraph (b) trigger a reporting requirement? (Reports of exempt distribution are required for distributions made in reliance on the prospectus exemptions provided in section 6.1 of NI 45-106, Multilateral Instrument 45-108 *Crowdfunding* and certain local rules and orders.)

A distribution may occur in more than one jurisdiction. In this case, the issuer ~~is required to file~~ may complete a single report identifying all purchasers, and file the report in each Canadian jurisdiction where the distribution has occurred~~, except British Columbia. The report will set out all distributions in each Canadian jurisdiction~~.

~~If the distribution occurs in British Columbia and one or more other jurisdictions, the issuer is required to file Form 45-106F6 with the British Columbia Securities Commission and file Form 45-106F1 in the other applicable jurisdictions.~~

(2) Access to information ~~in jurisdictions other than British Columbia~~

The securities legislation of several provinces requires that information filed with the securities regulatory authority or, where applicable, the regulator under such securities legislation, be made available for public inspection during normal business hours except for information that the securities regulatory authority or, where applicable, the regulator,

(a) believes to be personal or other information of such a nature that the desirability of avoiding disclosure thereof in the interest of any affected individual outweighs the desirability of adhering to the principle that information filed with the securities regulatory authority or the regulator, as applicable, be available to the public for inspection,

(b) in Alberta, considers that it would not be prejudicial to the public interest to hold the information in confidence, and

(c) in Québec, considers that access to the information could result in serious prejudice.

Based on the above-mentioned provisions of securities legislation, the securities regulatory authorities or regulators, as applicable, have determined that the information listed in Schedule 1 and Schedule 2 of Form 45-106F1 *Report of Exempt Distribution,* ~~Schedule I ("Schedule I")~~ discloses personal or other information of such a nature that the desirability of avoiding disclosure of this ~~personal~~ information outweighs the desirability of making the information available to the public for inspection. In addition, in Alberta, the regulator considers that it would not be prejudicial to the public interest to hold the information listed in ~~Schedule I~~these schedules in confidence. In Québec, the securities regulatory authority considers that access to ~~Schedule~~

~~I~~these schedules by the public in general could result in serious prejudice and consequently, the information listed in ~~Schedule I~~these schedules will not be made publicly available.

(3) ~~Filings in British Columbia~~ Electronic filing of Form 45-106F1 *Report of Exempt Distribution*

Form 45-106F1 is required to be filed electronically in all CSA jurisdictions as described below.

For filings made in British Columbia, issuers are required to file Form ~~45-106F6~~45-106F1 and pay the fees associated with that filing electronically using BCSC ~~e-services~~eServices. This requirement only applies to filings that are required to be made within 10 days of the distribution. It does not apply to filings made annually by investment funds under subsection 6.2(2) of NI 45-106. Please refer to BC Instrument 13-502 *Electronic Filing of Reports of Exempt Distribution* for further information.

For filings made in Ontario, issuers are required to file Form 45-106F1 electronically through the OSC's Electronic Filing Portal and pay the applicable fees. The electronic filing requirement applies to all issuers that file Form 45-106F1, including investment fund issuers that file annually in accordance with subsection 6.2(2) of NI 45-106. Please see OSC Rule 11-501 *Electronic Delivery of Documents to the Ontario Securities Commission* and OSC Rule 13-502 *Fees* for further information.

For filings made in any Canadian jurisdiction except for British Columbia and Ontario, issuers, other than certain foreign issuers, are required to file Form 45-106F1 and pay the fees associated with that filing electronically through the System for Electronic Document Analysis and Retrieval (SEDAR). The electronic filing requirement also applies to investment fund issuers that file annually in accordance with subsection 6.2(2) of NI 45-106. Please refer to National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)* and Multilateral Instrument 13-102 *System fees for SEDAR and NRD* for further information. Foreign issuers that are not required to file Form 45-106F1 electronically through SEDAR should file the report and pay the applicable fees in each of the jurisdictions in which a distribution is made at the addresses listed at the end of the report.

5.1.4 Amendments to OSC Rule 11-501 Electronic Delivery of Documents to the Ontario Securities Commission

Amendments to Ontario Securities Commission Rule 11-501
Electronic Delivery of Documents to the Ontario Securities Commission

1. Amendments to Ontario Securities Commission Rule 11-501 Electronic Delivery of Documents to the Ontario Securities Commission is amended by this Instrument.

2. Appendix A is amended by deleting the following row to the table:

45-501F1	Form 45-501F1 *Report of Exempt Distribution*

3. This Instrument comes into force on June 30, 2016.

5.1.5 Amendments to OSC Rule 13-502 Fees

Amendments to
Ontario Securities Commission Rule 13-502 *Fees*

1. Ontario Securities Commission Rule 13-502 Fees is amended by this Instrument.

2. Column A of Appendix C is amended by deleting "Form 45-501F1 or***" in Row B2.***

3. Column A of Appendix D is amended by replacing "Forms 45-501F1 and 45-106F1***" with "***Form 45-106F1***" in paragraph C.***

4. This Instrument comes into force on June 9, 2016.

5.1.6 Amendments to OSC Rule 45-501 Ontario Prospectus and Registration Exemptions

Amendments to
Ontario Securities Commission Rule 45-501 *Ontario Prospectus and Registration Exemptions*

1. Ontario Securities Commission Rule 45-501 Ontario Prospectus and Registration Exemptions is amended by this Instrument.

2. Section 6.2(1) is amended by replacing "Form 45-501F1***" with "***Form 45-106F1 *Report of Exempt Distribution*".***

3. Form 45-501F1 Report of Exempt Distribution is repealed.

4. This Instrument comes into force on June 30, 2016.

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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:
Ballard Power Systems Inc.
Principal Regulator - British Columbia
Type and Date:
Preliminary Shelf Prospectus dated June 2, 2016
NP 11-202 Preliminary Receipt dated June 2, 2016
Offering Price and Description:
US$100,000,000.00
Common Shares, Preferred Shares, Warrants, Units
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2494779

Issuer Name:
Cambridge Canadian Growth Companies Fund
Principal Regulator - Ontario
Type and Date:
Preliminary Simplified Prospectus dated May 30, 2016
NP 11-202 Preliminary Receipt dated June 1, 2016
Offering Price and Description:
Class EF Units
Underwriter(s) or Distributor(s):
-
Promoter(s):
CI Investments Inc.
Project #2494270

Issuer Name:
Bonavista Energy Corporation
Principal Regulator - Alberta
Type and Date:
Preliminary Short Form Prospectus dated June 1, 2016
NP 11-202 Preliminary Receipt dated June 1, 2016
Offering Price and Description:
$100,000,850.00 - 29,851,000 Common Shares
Price: $3.35 per Common Share
Underwriter(s) or Distributor(s):
CIBC WORLD MARKETS INC.
TD SECURITIES INC.
BMO NESBITT BURNS INC.
RBC DOMINION SECURITIES INC.
SCOTIA CAPITAL INC.
NATIONAL BANK FINANCIAL INC.
PETERS & CO. LIMITED
ALTACORP CAPITAL INC.
DESJARDINS SECURITIES INC.
FIRSTENERGY CAPITAL CORP.
Promoter(s):
-
Project #2489415

Issuer Name:
Cardinal Energy Ltd.
Principal Regulator - Alberta
Type and Date:
Preliminary Short Form Prospectus dated May 31, 2016
NP 11-202 Preliminary Receipt dated May 31, 2016
Offering Price and Description:
$60,775,000.00 - 6,500,000 Common Shares
Price: $9.35 per Common Share

Underwriter(s) or Distributor(s):
CIBC WORLD MARKETS INC.
FIRSTENERGY CAPITAL CORP.
RBC DOMINION SECURITIES INC.
NATIONAL BANK FINANCIAL INC.
SCOTIA CAPITAL INC.
GMP SECURITIES L.P.
BMO NESBITT BURNS INC.
MACQUARIE CAPITAL MARKETS CANADA LTD.
DUNDEE SECURITIES LTD.
Promoter(s):
-
Project #2488675

Issuer Name:
Clearwater Seafoods Incorporated
Principal Regulator - Nova Scotia
Type and Date:
Preliminary Short Form Prospectus dated June 6, 2016
NP 11-202 Preliminary Receipt dated June 6, 2016
Offering Price and Description:
$35,000,200.00 - 2,518,000 Common Shares
Price: $13.90 per Common Share
Underwriter(s) or Distributor(s):
Cormark Securities Inc.,
Beacon Securities Limited
Scotia Capital Inc.
Promoter(s):
-
Project #2493985

Issuer Name:
Delphi Energy Corp.
Principal Regulator - Alberta
Type and Date:
Amended and Restated Preliminary Short Form Prospectus dated June 3, 2016
NP 11-202 Preliminary Receipt dated June 3, 2016
Offering Price and Description:
$60,000,000.00 (60,000 Units) Each Unit consists of $1,000.00 principal amount of 10% CEL Notes due 2021 and 245 Common Share Purchase Warrants
Price: $1,000.00 Per Unit
Underwriter(s) or Distributor(s):
RAYMOND JAMES LTD.
PETERS & CO. LIMITED
ALTACORP CAPITAL INC.
GMP SECURITIES L.P.
INDUSTRIAL ALLIANCE SECURITIES INC.
Promoter(s):
-
Project #2490335

Issuer Name:
Dividend 15 Split Corp.
Principal Regulator - Ontario
Type and Date:
Preliminary Short Form Prospectus dated June 2, 2016
NP 11-202 Preliminary Receipt dated June 1, 2016
Offering Price and Description:
Offering: $* - * Preferred Shares and * Class A Shares
Prices: $ * per Preferred Share and $* per Class A Share
Underwriter(s) or Distributor(s):
National Bank Financial Inc.
CIBC World Markets Inc.
RBC Dominion Securities Inc.
Scotia Capital Inc.
TD Securities Inc.
BMO Nesbitt Burns Inc.
GMP Securities L.P.
Canaccord Genuity Corp.
Raymond James Ltd.
Desjardins Securities Inc.
Mackie Research Capital Corporation
Manulife Securities Incorporated
Promoter(s):
-
Project #2494343

Issuer Name:
Granite Oil Corp. (formerly DeeThree Exploration Ltd.)
Principal Regulator - Alberta
Type and Date:
Preliminary Short Form Prospectus dated May 31, 2016
NP 11-202 Preliminary Receipt dated May 31, 2016
Offering Price and Description:
$15,002,300.00 - 2,113,000 Common Shares
Price: $7.10 per Common Share
Underwriter(s) or Distributor(s):
NATIONAL BANK FINANCIAL INC.
RAYMOND JAMES LTD.
CORMARK SECURITIES INC.
CIBC WORLD MARKETS INC.
DUNDEE SECURITIES LTD.
RBC DOMINION SECURITIES INC.
SCOTIA CAPITAL INC.
TD SECURITIES INC.
Promoter(s):
-
Project #2494010

Issuer Name:
Matco Balanced Fund (formerly MFi Balanced Fund)
Matco Canadian Equity Income Fund (formerly MFi Canadian Equity Fund)
Matco Small Cap Fund (formerly MFi Small Cap Fund)
Principal Regulator - Alberta
Type and Date:
Preliminary Simplified Prospectus dated May 27, 2016
NP 11-202 Preliminary Receipt dated May 31, 2016
Offering Price and Description:
N Series Shares and N Series Units
Underwriter(s) or Distributor(s):
-
Promoter(s):
Matco Financial Inc.
Project #2489990

Issuer Name:
North American Nickel Inc.
Principal Regulator - British Columbia
Type and Date:
Preliminary Short Form Prospectus dated June 2, 2016
NP 11-202 Preliminary Receipt dated June 3, 2016
Offering Price and Description:
$12,000,000.00 - Up to * Units
Price: $ * per Unit

Underwriter(s) or Distributor(s):
PARADIGM CAPITAL INC.
Promoter(s):
-
Project #2494975

Issuer Name:
Russell Multi-Asset Growth Strategy (formerly Russell LifePoints All Equity Portfolio)
Russell Multi-Asset Growth Strategy Class (formerly Russell LifePoints All Equity Class Portfolio)
Principal Regulator - Ontario
Type and Date:
Preliminary Simplified Prospectus dated May 27, 2016
NP 11-202 Preliminary Receipt dated May 31, 2016
Offering Price and Description:
Series B-5, E-5, F-5 Securities
Underwriter(s) or Distributor(s):
Russell Investments Canada Limited
Russell Investments Canada Limited
-
Promoter(s):
Russell Investments Canada Limited
Project #2492228

Issuer Name:
Summit Industrial Income REIT
Principal Regulator - Ontario
Type and Date:
Preliminary Short Form Prospectus dated June 3, 2016
NP 11-202 Preliminary Receipt dated June 3, 2016
Offering Price and Description:
$30,250,00.00 - 5,000,000 Units
Price $6.05 per Unit
Underwriter(s) or Distributor(s):
BMO NESBITT BURNS INC.
CIBCWORLD MARKETS INC.
RBC DOMINION SECURITIES INC.
NATIONAL BANK FINANCIAL INC.
SCOTIA CAPITAL INC.
TD SECURITIES INC.
CANACCORD GENUITY CORP.
DUNDEE SECURITIES LTD.
INDUSTRIAL ALLIANCE SECURITIES INC.
Promoter(s):
-
Project #2492550

Issuer Name:
VALHALLA GAME STUDIOS INTERNATIONAL LTD.
Principal Regulator - British Columbia
Type and Date:
Preliminary Long Form Prospectus dated June 2, 2016
NP 11-202 Preliminary Receipt dated June 3, 2016
Offering Price and Description:
($5,000,000.00 Proceeds) * Common Shares
Price: $* per Common Share
Underwriter(s) or Distributor(s):
Echelon Wealth Partners Inc.
Promoter(s):
Satoshi Kanematsu
Tomonobu Itagaki
Project #2495209

Issuer Name:
Agellan Commercial Real Estate Investment Trust
Principal Regulator - Ontario
Type and Date:
Final Shelf Prospectus dated June 3, 2016
NP 11-202 Receipt dated June 3, 2016
Offering Price and Description:
$500,000,000.00 - Units Debt Securities
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2491215

Issuer Name:
Energy Leaders Plus Income Fund
Principal Regulator - Ontario
Type and Date:
Final Short Form Prospectus dated June 2, 2016
NP 11-202 Receipt dated June 2, 2016
Offering Price and Description:
$4,650,000.00 - 775,000 Class A Units
Price: $6.00 per Class A Unit
Underwriter(s) or Distributor(s):
BMO Nesbitt Burns Inc.
CIBC World Markets Inc.
Scotia Capital Inc.
National Bank Financial Inc.
Canaccord Genuity Corp.
GMP Securities L.P.
Raymond James Ltd.
Desjardins Securities Inc.
Global Securities Corporation
Industrial Alliance Securities Inc.
Dundee Securities Ltd.
Mackie Research Capital Corporation
Manulife Securities Incorporated
Promoter(s):
Harvest Portfolios Group Inc.
Project #2488275

Issuer Name:
Exemplar Canadian Focus Portfolio
Exemplar Diversified Portfolio
Principal Regulator - Ontario
Type and Date:
Final Long Form Prospectus dated May 30, 2016
NP 11-202 Receipt dated May 31, 2016
Offering Price and Description:
Series A Shares, Series F Shares, Series L Shares, Series I Shares and Series R Shares
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2472632

Issuer Name:
Franklin Bissett All Canadian Focus Corporate Class
Franklin Bissett All Canadian Focus Fund
Franklin Bissett Canadian All Cap Balanced Corporate Class
Franklin Bissett Canadian All Cap Balanced Fund
Franklin Bissett Canadian Balanced Corporate Class
Franklin Bissett Canadian Balanced Fund
Franklin Bissett Canadian Dividend Corporate Class
Franklin Bissett Canadian Dividend Fund
Franklin Bissett Canadian Equity Corporate Class
Franklin Bissett Canadian Equity Fund
Franklin Bissett Canadian Short Term Bond Fund
Franklin Bissett Core Plus Bond Fund (formerly Franklin Bissett Bond Fund)
Franklin Bissett Corporate Bond Fund
Franklin Bissett Dividend Income Corporate Class
Franklin Bissett Dividend Income Fund
Franklin Bissett Energy Corporate Class
Franklin Bissett Microcap Fund
Franklin Bissett Money Market Corporate Class
Franklin Bissett Money Market Fund
Franklin Bissett Monthly Income and Growth Fund
Franklin Bissett Small Cap Corporate Class
Franklin Bissett Small Cap Fund
Franklin Bissett Strategic Income Corporate Class
Franklin Bissett Strategic Income Fund
Franklin Bissett U.S. Focus Corporate Class
Franklin Bissett U.S. Focus Fund
Franklin Global Small-Mid Cap Fund
Franklin High Income Fund
Franklin Mutual European Fund
Franklin Mutual Global Discovery Corporate Class
Franklin Mutual Global Discovery Fund
Franklin Mutual U.S. Shares Corporate Class
Franklin Mutual U.S. Shares Fund
Franklin Quotential Balanced Growth Corporate Class Portfolio
Franklin Quotential Balanced Growth Portfolio
Franklin Quotential Balanced Income Corporate Class Portfolio
Franklin Quotential Balanced Income Portfolio
Franklin Quotential Diversified Equity Corporate Class Portfolio
Franklin Quotential Diversified Equity Portfolio
Franklin Quotential Diversified Income Corporate Class Portfolio
Franklin Quotential Diversified Income Portfolio
Franklin Quotential Growth Corporate Class Portfolio
Franklin Quotential Growth Portfolio
Franklin Strategic Income Fund
Franklin Templeton Canadian Large Cap Fund
Franklin U.S. Core Equity Fund
Franklin U.S. Monthly Income Corporate Class
Franklin U.S. Monthly Income Fund
Franklin U.S. Monthly Income Hedged Corporate Class
Franklin U.S. Opportunities Corporate Class (formerly Franklin Flex Cap Growth Corporate Class)
Franklin U.S. Opportunities Fund (formerly Franklin Flex Cap Growth Fund)
Franklin U.S. Rising Dividends Corporate Class
Franklin U.S. Rising Dividends Fund
Franklin U.S. Rising Dividends Hedged Corporate Class
Franklin World Growth Corporate Class
Franklin World Growth Fund
Templeton Asian Growth Corporate Class
Templeton Asian Growth Fund
Templeton BRIC Corporate Class
Templeton EAFE Developed Markets Fund
Templeton Emerging Markets Corporate Class
Templeton Emerging Markets Fund
Templeton Frontier Markets Corporate Class
Templeton Frontier Markets Fund
Templeton Global Balanced Fund
Templeton Global Bond Fund
Templeton Global Bond Fund (Hedged)
Templeton Global Smaller Companies Corporate Class
Templeton Global Smaller Companies Fund
Templeton Growth Corporate Class
Templeton Growth Fund, Ltd.
Templeton International Stock Corporate Class
Templeton International Stock Fund
Principal Regulator - Ontario
Type and Date:
Final Simplified Prospectus dated May 27, 2016
NP 11-202 Receipt dated May 31, 2016
Offering Price and Description:
-
Underwriter(s) or Distributor(s):
Franklin Templeton Investments Corp.
Franklin Templeton Investments Corp.
Bissett Investment Management, a division of Franklin Templeton Investments Corp.
Franklin Templeton Investmetns Corp.
Promoter(s):
Franklin Templeton Investments Corp.
Project #2469490

Issuer Name:
iShares 1-10 Year Laddered Corporate Bond Index ETF
iShares 1-10 Year Laddered Government Bond Index ETF
iShares 1-5 Year Laddered Corporate Bond Index ETF
iShares 1-5 year Laddered Government Bond Index ETF
iShares Balanced Growth CorePortfolioTM Index ETF
iShares Balanced Income CorePortfolioTM Index ETF
iShares BRIC Index ETF
iShares Canadian Fundamental Index ETF
iShares Convertible Bond Index ETF
iShares Core High Quality Canadian Bond Index ETF (formerly, iShares High Quality Canadian Bond Index ETF)
iShares Emerging Markets Fundamental Index ETF
iShares Global Agriculture Index ETF
iShares Global Infrastructure Index ETF
iShares Global Monthly Dividend Index ETF (CAD-Hedged)
iShares Global Real Estate Index ETF
iShares Global Water Index ETF (formerly, iShares S&P Global Water Index ETF)
iShares International Fundamental Index ETF
iShares Japan Fundamental Index ETF (CAD-Hedged)
iShares S&P/TSX Canadian Dividend Aristocrats Index ETF
iShares S&P/TSX Canadian Preferred Share Index ETF
iShares U.S. High Yield Fixed Income Index ETF (CAD-Hedged) (formerly iShares Advantaged U.S. High Yield Bond Index ETF)
iShares US Dividend Growers Index ETF (CAD-Hedged), (formerly, iShares S&P US Dividend Growers Index ETF CAD-Hedged)
iShares US Fundamental Index ETF
Principal Regulator - Ontario
Type and Date:
Final Long Form Prospectus dated June 3, 2016
NP 11-202 Receipt dated June 6, 2016
Offering Price and Description:
-
Underwriter(s) or Distributor(s):
BlackRock Asset Management Canada Limited
Promoter(s):
-
Project #2475019

Issuer Name:
Kew Media Group Inc.
Principal Regulator - Ontario
Type and Date:
Final Long Form Prospectus dated June 3, 2016
NP 11-202 Receipt dated June 3, 2016
Offering Price and Description:
$70,000,000.00
7,000,000 Class A Restricted Voting Units
@ $10.00 per Class A Restricted Voting Unit
Underwriter(s) or Distributor(s):
TD Securities Inc..
Cantor Fitzgerald Canada Corporation
National Bank Financial Inc.
Cormark Securities Inc..
GMP Securities L.P.
Promoter(s):
KMG Entertainment LP
Project #2479750

Issuer Name:
LDIC North American Infrastructure Fund
LDIC North American Small Business Fund (Corporate Class)
Principal Regulator - Ontario
Type and Date:
Final Simplified Prospectus dated May 31, 2016
NP 11-202 Receipt dated June 3, 2016
Offering Price and Description:
Class A and F units and Series A and F1 shares
Underwriter(s) or Distributor(s):
LDIC Inc.
Promoter(s):
LDIC Inc.
Project #2472748

Issuer Name:
Mackenzie Maximum Diversification All World Developed ex North America Index ETF
Mackenzie Maximum Diversification All World Developed Index ETF
Mackenzie Maximum Diversification Canada Index ETF
Mackenzie Maximum Diversification Developed Europe Index ETF
Mackenzie Maximum Diversification Emerging Markets Index ETF
Mackenzie Maximum Diversification US Index ETF
Principal Regulator - Ontario
Type and Date:
Final Long Form Prospectus dated June 3, 2016
NP 11-202 Receipt dated June 6, 2016
Offering Price and Description:
-
Underwriter(s) or Distributor(s):
-
Promoter(s):
Mackenzie Financial Corporation
Project #2468385

Issuer Name:
Richmont Mines Inc.
Principal Regulator - Quebec
Type and Date:
Final Short Form Prospectus dated May 31, 2016
NP 11-202 Receipt dated May 31, 2016
Offering Price and Description:
$27,040,000.002 - 2,600,000 Common Shares
Price: $10.40 per Common Share
Underwriter(s) or Distributor(s):
Macquarie Capital Markets Canada Ltd
TD Securities Inc.
BMO Nesbitt Burns Inc.
CIBC World Markets Inc.
National Bank Financial Inc.
Canaccord Genuity Corp.
Desjardins Securities Inc.
Paradign Capital Inc.
Scotia Capital Inc.
Cormark Securities Inc.
Haywood Securities Inc.
Mackie Research Capital Corp.
PI Financial Corp.
Promoter(s):
-
Project #2485916

Issuer Name:
Scotia Private Options Income Pool
Principal Regulator - Ontario
Type and Date:
Final Simplified Prospectus dated May 31, 2016
NP 11-202 Receipt dated June 2, 2016
Offering Price and Description:
Series I and M units
Underwriter(s) or Distributor(s):
1832 Asset Management L.P.
Promoter(s):
-
Project #2474984

Issuer Name:
Sprott Canadian Equity Class
Sprott Diversified Bond Class (formerly Sprott Diversified Yield Class)
Sprott Gold and Precious Minerals Class
Sprott Gold Bullion Class
Sprott Resource Class
Sprott Short-Term Bond Class
Sprott Silver Bullion Class
Sprott Silver Equities Class
Sprott Tactical Balanced Class
Principal Regulator - Ontario
Type and Date:
Final Simplified Prospectus dated May 30, 2016
NP 11-202 Receipt dated June 3, 2016
Offering Price and Description:
Sereis A, Series F and Series I, Series T, Series FT, Series P, Series PT, Series PF, Series PFT, Series Q, Series QT, Series QF and Series QFT Shares
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2474653

Issuer Name:
Sprott Canadian Equity Fund
Sprott Diversified Bond Fund (formerly Sprott Diversified Yield Fund)
Sprott Energy Fund
Sprott Gold and Precious Minerals Fund
Sprott Short-Term Bond Fund
Sprott Small Cap Equity Fund
Sprott Tactical Balanced Fund
Principal Regulator - Ontario
Type and Date:
Final Simplified Prospectus dated May 30, 2016
NP 11-202 Receipt dated June 3, 2016
Offering Price and Description:
Series A, Series F, Series I, Series D, Series T, Series FT, Series P, Series PT, Series PF, Series PFT, Series Q, Series QT, Series QF and Series QFT Units, Series T, Series FT, Series P, Series PT, Series PF, Series PFT, Series Q, Series QT, Series QF and Series QFT Units
Underwriter(s) or Distributor(s):
-
Promoter(s):
SPROTT ASSET MANAGEMENT LP
Project #2474976

Issuer Name:
Whitewater Capital Corp.
Principal Regulator - British Columbia
Type and Date:
Final Long Form Prospectus dated May 30, 2016
NP 11-202 Receipt dated May 31, 2016
Offering Price and Description:
5,500,000 Special Warrants
Underwriter(s) or Distributor(s):
-
Promoter(s):
Gary F. Zak
Jerry Minni
Project #2469013

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Chapter 12

Registrations

12.1.1 Registrants

Type	Company	Category of Registration	Effective Date
New Registration	DPS Capital Inc.	Portfolio Manager, Investment Fund Manager and Exempt Market Dealer	June 1, 2016
New Registration	Jefferies Securities, Inc.	Investment Dealer	June 2, 2016

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Chapter 13

SROs, Marketplaces, Clearing Agencies and Trade Repositories

13.1 SROs

13.1.1 IIROC – Consolidation of IIROC Enforcement, Procedural, Examination and Approval Rules – Notice of Commission Approval

NOTICE OF COMMISSION APPROVAL

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA (IIROC)

CONSOLIDATION OF IIROC ENFORCEMENT, PROCEDURAL, EXAMINATION AND APPROVAL RULES

The Ontario Securities Commission has approved IIROC's proposal to consolidate and rationalize certain enforcement and related rules currently contained within the Universal Market Integrity Rules and Dealer Member Rules into a set of new rules ("Consolidated Rules"). The Consolidated Rules have been also been approved or non-objected to by the Alberta Securities Commission; the Autorité des marchés financiers; the British Columbia Securities Commission; the Financial and Consumer Affairs Authority of Saskatchewan; the Financial and Consumer Services Commission of New Brunswick; the Manitoba Securities Commission; The Nova Scotia Securities Commission; the Office of the Superintendent of Services, Service Newfoundland and Labrador; and the Prince Edward Island Office of the Superintendent of Securities Office.

The Consolidated Rules are intended to achieve the following objectives:

- to replace the two current enforcement rule sets, found in IIROC's Dealer Member Rules and Universal Market Integrity Rules;
- to clarify current rules relating to compliance examinations; and
- to update rules relating to registration approvals and reviews.

The Consolidated Rules were originally published for comment on March 23, 2012 and republished for comment on November 14, 2013. IIROC has made non-substantive changes to the rules as published in 2013 in response to comments received. A summary of the comments and IIROC's responses, as well as the text of the approved Consolidated Rules can be found at www.osc.gov.on.ca.

The Consolidated Rules will be effective on September 1, 2016, except Rule 8300 (Hearing Committees), which is effective immediately.

13.1.2 IIROC – Proposed Universal Market Integrity Rules Amendments Respecting Designations and Identifiers – OSC Notice and Request for Comment

OSC STAFF NOTICE OF REQUEST FOR COMMENT

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA (IIROC)

PROPOSED AMENDMENTS TO THE UNIVERSAL MARKET INTEGRITY RULES RESPECTING DESIGNATIONS AND IDENTIFIERS

IIROC is publishing for public comment proposed amendments to the Universal Market Integrity Rules (UMIR). The proposed amendments to sections 1.1 and 6.2 of UMIR would introduce two new order designations (bundled order designation and derivative-related cross designation) and modify the existing bypass order marker from a public to a private marker for bypass orders that are not part of a designated trade. The purpose of the new order designations is to enhance trading transparency and improve efficiency by eliminating the requirement to file an end-of-day regulatory marker corrections report in certain instances. The change in the existing bypass order designation from a public to a private marker would help to prevent potential information leakage to the public.

A copy of the IIROC Notice, including the proposed amendments, is published on our website at www.osc.gov.on.ca. The comment period ends on August 8, 2016.

Chapter 25

Other Information

25.1 Consents

25.1.1 Sherritt International Corporation – s. 4(b) of Ont. Reg. 289/00 under the OBCA

Headnote

Consent given to an offering corporation under the Business Corporations Act (Ontario) to continue under the Canada Business Corporations Act.

Statutes Cited

Business Corporations Act, R.S.O. 1990, c. B.16, as am., s. 181.
Securities Act, R.S.O. 1990, c. S.5, as am.

Regulations Cited

Regulation made under the Business Corporations Act, Ont. Reg. 289/00, as am., s. 4(b).

IN THE MATTER OF
R.R.O. 1990, REGULATION 289/00, AS AMENDED
(THE "REGULATION") MADE UNDER
THE BUSINESS CORPORATIONS ACT (ONTARIO),
R.S.O. 1990, c. B.16, AS AMENDED
(THE "OBCA")

AND

IN THE MATTER OF
SHERRITT INTERNATIONAL CORPORATION

CONSENT
(Subsection 4(b) of the Regulation)

UPON the application of Sherritt International Corporation (the "**Applicant**") to the Ontario Securities Commission (the "**Commission**") requesting the consent from the Commission pursuant to subsection 4(b) of the Regulation, for the Applicant to continue into another jurisdiction pursuant to Section 181 of the OBCA (the "**Continuance**");

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

AND UPON the Applicant having represented to the Commission that:

1. The Applicant was incorporated by articles of amalgamation under the OBCA on December 1, 2010.

2. The head and registered office of the Applicant is 181 Bay Street, 26th Floor, Toronto, ON M5J 2T3.

3. The authorized capital of the Applicant consists of an unlimited number of common shares ("**Common Shares**"), of which 293,853,001 were issued and outstanding as of March 31, 2016. All of the issued and outstanding Common Shares are listed for trading on the Toronto Stock Exchange (the "**Exchange**") under the symbol "S". As of March 31, 2016, there were an aggregate of 9,678,416 stock options ("**Options**") outstanding under the Applicant's stock option plan. The Options are not listed for trading on any stock exchange. The Applicant also has several series of senior unsecured debentures outstanding:

   (a) 8.00% Senior Unsecured Debentures ("**8.00% Debentures**") ($400 million in aggregate principal) issued November 2, 2011 pursuant to a trust indenture dated November, 2011 between the Corporation and Computershare Trust Company of Canada, as trustee (as amended or supplemented, the "**2011 Indenture**") and a first supplemental indenture dated November 2, 2011. On October 10, 2014 the Corporation completed

the purchase of $150 million of the 8.00% Debentures and certain amendments to the 2011 Indenture (the "**2014 Amendments**") were adopted;

(b) 7.50% Debentures ("**7.50% Debentures**") ($500 million in aggregate principal) issued September 24, 2012 pursuant to the 2011 Indenture and a second supplemental indenture dated September 24, 2012, as amended by the 2014 Amendments (the "**Amended Indenture**"). The Corporation completed the purchase of $250 million of the 7.50% Debentures on October 10, 2014: and

(c) 7.875% Debentures ("**7.875% Debentures**") ($250 million in aggregate principal) issued October 10, 2014, pursuant to the Amended Indenture.

As of December 31, 2015, $250 million principal amount of the 8.00% Debentures, $250 million of the principal amount of the 7.50% Debentures and $250 million principal amount of the 7.875% Debentures were outstanding. The 8.00% Debentures, the 7.50% Debentures and the 7.875% Debentures trade in the over the counter bond market. The Applicant does not have any securities listed on any other exchanges.

4. The Applicant is a leader in the mining and refining of nickel and cobalt from lateritic ores with projects and operations in Canada, Cuba and Madagascar. The Applicant is the largest independent energy producer in Cuba, with extensive oil and power operations on the island. The Applicant licenses its proprietary technologies and provides metallurgical services to mining and refining operations worldwide.

5. The Applicant intends to apply (the "**Application for Continuance**") to the Director, pursuant to section 181 of the OBCA, to continue as a corporation under the *Canada Business Corporations Act*, R.S.C. 1985 c, C-44 (the "**CBCA**") under its name "Sherritt International Corporation". The Applicant has a Federal Reservation Report in the name of "Sherritt International Corporation" under name reservation number 118276013.

6. Pursuant to subsection 4(b) of the Regulation, where an applicant corporation is an offering corporation, the Application for Continuance must be accompanied by a consent from the Commission.

7. The Applicant is an offering corporation under the OBCA and is a reporting issuer under the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "**Act**") and the securities legislation of each province and territory of Canada (collectively, the "**Legislation**"). The Commission is currently the Applicant's principal regulator.

8. The Applicant intends to remain a reporting issuer under the Act and the Legislation after the Continuance.

9. The Applicant is not in default of: (i) any of the provisions of the OBCA, the Act or the Legislation, including any of the rules or regulations made thereunder; and (ii) any of the rules, regulations or policies of the Exchange.

10. The Applicant is not a party to any proceeding or, to the best of its knowledge, information and belief, pending proceeding under the OBCA, Act or Legislation.

11. A summary of the material provisions respecting the proposed Continuance was provided to the shareholders of the Applicant in the management information circular of the Applicant dated April 6, 2016 (the "**Circular**") in respect of the Applicant's annual and special meeting of shareholders which was held on May 10, 2016 (the "**Meeting**"). The Circular includes full disclosure of the reasons for, and the implications of, the proposed Continuance and a summary of the material differences between the OBCA and the CBCA. The Circular was mailed on April 15, 2016 to shareholders of record at the close of business on March 31, 2016 and was filed on April 13, 2016 on the System for Electronic Document Analysis and Retrieval.

12. In accordance with the OBCA and the Applicant's constating documents, the special resolution of shareholders (the "**Continuance Resolution**") to be obtained at the Meeting in connection with the proposed Continuance required the approval of not less than two-thirds of the aggregate votes cast by the shareholders present in person or represented by proxy at the Meeting. Each shareholder was entitled to one vote for each Common Share held.

13. Pursuant to Section 185 of the OBCA, all shareholders of record as of the record date for the Meeting had the right to dissent in connection with the Application for Continuance. The Circular advised the shareholders of their dissent rights in accordance with applicable law.

14. The Continuance Resolution was approved at the Meeting by 93.52% of the votes cast by the shareholders of the Applicant. None of the shareholders of the Applicant exercised dissent rights pursuant to Subsection 185 of the OBCA at the Meeting.

15. Following the Continuance, the Applicant's head and registered office will remain located at 181 Bay Street, 26th Floor, Toronto, ON M5J 2T3 and Ontario will remain the Applicant's principal regulator.

16. The Applicant's material rights, duties and obligations under the CBCA will be substantially similar to those under the OBCA.

17. The Continuance is proposed to be made as the Applicant believes it to be in its best interest to conduct its affairs in accordance with the CBCA.

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

THE COMMISSION HEREBY CONSENTS to the continuance of the Applicant as a corporation under the CBCA.

DATED at Toronto, Ontario this 3rd day of June, 2016.

"Anne Marie Ryan"
Commissioner
Ontario Securities Commission

"Deborah Leckman"
Commissioner
Ontario Securities Commission

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