The Ontario Securities Commission

OSC Bulletin

May 16, 2013

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The Ontario Securities Commission administers the
Securities Act of Ontario (R.S.O. 1990, c. S.5) and the
Commodity Futures Act of Ontario (R.S.O. 1990, c. C.20)

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Chapter 1

Notices / News Releases

1.1 Notices

1.1.1 Current Proceedings Before The Ontario Securities Commission

May 16, 2013

CURRENT PROCEEDINGS

BEFORE

ONTARIO SECURITIES COMMISSION

- - - - - - - - - - - - - - - - - - - -

Unless otherwise indicated in the date column, all hearings will take place at the following location:

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M5H 3S8

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Christopher Portner	—	CP
Judith N. Robertson	—	JNR
AnneMarie Ryan	—	AMR
Charles Wesley Moore (Wes) Scott	—	CWMS

SCHEDULED OSC HEARINGS

May 22, 2013 9:45 a.m.	**Global Consulting and Financial Services, Global Capital Group, Crown Capital Management Corp., Michael Chomica, Jan Chomica and Lorne Banks** s. 127 C. Rossi in attendance for Staff Panel: AJL
May 22, 2013 10:00 a.m.	**FactorCorp Inc., FactorCorp Financial Inc. and Mark Twerdun** s. 127 C. Price in attendance for Staff Panel: CP
May 22-24, 2013 10:00 a.m.	**Energy Syndications Inc. Green Syndications Inc. , Syndications Canada Inc., Daniel Strumos, Michael Baum and Douglas William Chaddock** s. 127 C. Johnson in attendance for Staff Panel: AJL
May 22, 23 and 31, 2013 10:00 a.m.	**North American Financial Group Inc., North American Capital Inc., Alexander Flavio Arconti, and Luigino Arconti** s. 127 M. Vaillancourt in attendance for Staff Panel: JDC

May 22-31, 2013 10:00 a.m.	**2196768 Ontario Ltd carrying on business as Rare Investments, Ramadhar Dookhie, Adil Sunderji and Evgueni Todorov** s. 127 D. Campbell in attendance for Staff Panel: EPK
May 27, 2013 10:00 a.m.	**AMTE Services Inc., Osler Energy Corporation, Ranjit Grewal, Phillip Colbert and Edward Ozga** s. 127 C. Rossi in attendance for Staff Panel: JEAT
May 27, 2013 11:00 a.m.	**Heritage Education Funds Inc.** s. 127 D. Ferris in attendance for Staff Panel: JEAT
May 28-31, June 5-6, 10-12, 14-17, 19-21 and July 22-26, 2013 10:00 a.m.	**Jowdat Waheed and Bruce Walter** s. 127 J. Lynch in attendance for Staff Panel: CP/SBK/PLK
May 30, 2013 10:00 a.m.	**Sandy Winick, Andrea Lee McCarthy, Kolt Curry, Laura Mateyak, Gregory J. Curry, American Heritage Stock Transfer Inc., American Heritage Stock Transfer, Inc., BFM Industries Inc., Liquid Gold International Corp., (aka Liquid Gold International Inc.) and Nanotech Industries Inc.** s. 127 J. Feasby/C. Watson in attendance for Staff Panel: JDC
June 5, 2013 9:00 a.m.	**Global Consulting and Financial Services, Crown Capital Management Corporation, Canadian Private Audit Service, Executive Asset Management, Michael Chomica, Peter Siklos (also known as Peter Kuti), Jan Chomica, and Lorne Banks** s. 127 C. Rossi in attendance for Staff Panel: CP
June 5-17 and June 19-25, 2013 10:00 a.m.	**David Charles Phillips and John Russell Wilson** s. 127 Y. Chisholm in attendance for Staff Panel: JDC/EPK/CWMS
June 6, 2013 10:00 a.m.	**New Hudson Television Corporation, New Hudson Television L.L.C. & James Dmitry Salganov** s. 127 C. Watson in attendance for Staff Panel: AJL
June 6, 2013 10:00 a.m.	**New Hudson Television LLC & Dmitry James Salganov** s. 127 C. Watson in attendance for Staff Panel: AJL
June 6, 2013 11:00 a.m.	**Ground Wealth Inc., Armadillo Energy Inc., Paul Schuett, Doug DeBoer, James Linde, Susan Lawson, Michelle Dunk, Adrion Smith, Bianca Soto and Terry Reichert** s. 127 J. Feasby in attendance for Staff Panel: MGC

June 6, 2013 11:00 a.m.	**Ground Wealth Inc., Michelle Dunk, Adrion Smith, Joel Webster, Douglas DeBoer, Armadillo Energy Inc., Armadillo Energy, Inc., and Armadillo Energy LLC** s. 127 J. Feasby in attendance for Staff Panel: MGC
June 19, 2013 11:00 a.m.	**Knowledge First Financial Inc.** s. 127 D. Ferris in attendance for Staff Panel: JEAT
June 27, 2013 10:00 a.m.	**Nest Acquisitions and Mergers, IMG International Inc., Caroline Myriam Frayssignes, David Pelcowitz, Michael Smith, and Robert Patrick Zuk** s. 37, 127 and 127.1 C. Price in attendance for Staff Panel: JDC
July 3, 2013 10:00 a.m.	**Alexander Christ Doulis (aka Alexander Christos Doulis, aka Alexandros Christodoulidis) and Liberty Consulting Ltd.** s. 127 J. Feasby in attendance for Staff Panel: VK
July 4, 2013 10:00 a.m.	**Juniper Fund Management Corporation, Juniper Income Fund, Juniper Equity Growth Fund and Roy Brown (a.k.a. Roy Brown-Rodrigues)** s. 127 and 127.1 D. Ferris in attendance for Staff Panel: VK
July 19, 2013 10:00 a.m.	**Children's Education Funds Inc.** s. 127 D. Ferris in attendance for Staff Panel: JEAT
July 31, 2013 10:00 a.m.	**Oversea Chinese Fund Limited Partnership, Weizhen Tang and Associates Inc., Weizhen Tang Corp., and Weizhen Tang** s. 127 and 127.1 H. Craig in attendance for Staff Panel: MGC
August 1, 2013 10:00 a.m.	**Ronald James Ovenden, New Solutions Capital Inc., New Solutions Financial Corporation and New Solutions Financial (Ii) Corporation** s. 127 Y. Chisholm in attendance for Staff Panel: JEAT
September 4, 2013 11:00 a.m.	**Global Energy Group, Ltd., New Gold Limited Partnerships, Christina Harper, Howard Rash, Michael Schaumer, Elliot Feder, Vadim Tsatskin, Oded Pasternak, Alan Silverstein, Herbert Groberman, Allan Walker, Peter Robinson, Vyacheslav Brikman, Nikola Bajovski, Bruce Cohen and Andrew Shiff** s. 127 C. Watson in attendance for Staff Panel: EPK
September 5-9 and September 11-13, 2013 10:00 a.m.	**Onix International Inc. and Tyrone Constantine Phipps** s. 127 C. Rossi in attendance for Staff Panel: TBA

September 16-23, September 25 – October 7, October 9-21, October 23 – November 4, November 6-18, November 20 – December 2, December 4-16 and December 18-20, 2013 10:00 a.m.	**Eda Marie Agueci, Dennis Wing, Santo Iacono, Josephine Raponi, Kimberley Stephany, Henry Fiorillo, Giuseppe (Joseph) Fiorini, John Serpa, Ian Telfer, Jacob Gornitzki and Pollen Services Limited** s. 127 U. Sheikh in attendance for Staff Panel: JDC
October 15-21, October 23-29, 2013 10:00 a.m.	**Normand Gauthier, Gentree Asset Management Inc., R.E.A.L. Group Fund III (Canada) LP, and CanPro Income Fund I, LP** s. 127 B. Shulman in attendance for Staff Panel: EPK
November 4 and November 6-18, 2013 10:00 a.m.	**Systematech Solutions Inc., April Vuong and Hao Quach** s. 127 D. Ferris in attendance for Staff Panel: TBA
January 13, January 15-27, January 29 – February 10, February 12-14 and February 18-21, 2014 10:00 a.m.	**International Strategic Investments, International Strategic Investments Inc., Somin Holdings Inc., Nazim Gillani and Ryan J. Driscoll.** s. 127 C. Watson in attendance for Staff Panel: TBA
May 5-May 16 and May 20 – June 20, 2014 10:00 a.m.	**Paul Azeff, Korin Bobrow, Mitchell Finkelstein, Howard Jeffrey Miller and Man Kin Cheng (a.k.a. Francis Cheng)** s. 127 T. Center/D. Campbell in attendance for Staff Panel: TBA
In writing	**Morgan Dragon Development Corp., John Cheong (aka Kim Meng Cheong), Herman Tse, Devon Ricketts and Mark Griffiths** s. 127 J. Feasby in attendance for Staff Panel: EPK
TBA	**Yama Abdullah Yaqeen** s. 8(2) J. Superina in attendance for Staff Panel: TBA
TBA	**Microsourceonline Inc., Michael Peter Anzelmo, Vito Curalli, Jaime S. Lobo, Sumit Majumdar and Jeffrey David Mandell** s. 127 Panel: TBA
TBA	**Frank Dunn, Douglas Beatty, Michael Gollogly** s. 127 Panel: TBA
TBA	**MRS Sciences Inc. (formerly Morningside Capital Corp.), Americo DeRosa, Ronald Sherman, Edward Emmons and Ivan Cavric** s. 127 and 127(1) D. Ferris in attendance for Staff Panel: TBA
TBA	**Gold-Quest International and Sandra Gale** s. 127 C. Johnson in attendance for Staff Panel: TBA

TBA

Brilliante Brasilcan Resources Corp., York Rio Resources Inc., Brian W. Aidelman, Jason Georgiadis, Richard Taylor and Victor York

s. 127

H. Craig in attendance for Staff

Panel: TBA

TBA

Uranium308 Resources Inc., Michael Friedman, George Schwartz, Peter Robinson, and Shafi Khan

s. 127

H. Craig/C. Rossi in attendance for Staff

Panel: TBA

TBA

Innovative Gifting Inc., Terence Lushington, Z2A Corp., and Christine Hewitt

s. 127

M. Vaillancourt in attendance for Staff

Panel: TBA

TBA

David M. O'Brien

s. 37, 127 and 127.1

B. Shulman in attendance for Staff

Panel: TBA

TBA

Bunting & Waddington Inc., Arvind Sanmugam, Julie Winget and Jenifer Brekelmans

s. 127

M. Britton/A. Pelletier in attendance for Staff

Panel: TBA

TBA

Beryl Henderson

s. 127

C. Weiler in attendance for Staff

Panel: TBA

TBA

Crown Hill Capital Corporation and Wayne Lawrence Pushka

s. 127

A. Perschy/A. Pelletier in attendance for Staff

Panel: TBA

TBA

Portus Alternative Asset Management Inc., Portus Asset Management Inc., Boaz Manor, Michael Mendelson, Michael Labanowich and John Ogg

s. 127

H Craig in attendance for Staff

Panel: TBA

TBA

Irwin Boock, Stanton Defreitas, Jason Wong, Saudia Allie, Alena Dubinsky, Alex Khodjaiants Select American Transfer Co., Leasesmart, Inc., Advanced Growing Systems, Inc., International Energy Ltd., Nutrione Corporation, Pocketop Corporation, Asia Telecom Ltd., Pharm Control Ltd., Cambridge Resources Corporation, Compushare Transfer Corporation, Federated Purchaser, Inc., TCC Industries, Inc., First National Entertainment Corporation, WGI Holdings, Inc. and Enerbrite Technologies Group

s. 127 and 127.1

D. Campbell in attendance for Staff

Panel: TBA

TBA **Ernst & Young LLP**

s. 127 and 127.1

A. Clark in attendance for Staff

Panel: TBA

TBA **Newer Technologies Limited, Ryan Pickering and Rodger Frey**

s. 127 and 127.1

B. Shulman in attendance for staff

Panel: TBA

TBA **Sino-Forest Corporation, Allen Chan, Albert Ip, Alfred C.T. Hung, George Ho, Simon Yeung and David Horsley**

s. 127

H. Craig in attendance for Staff

Panel: TBA

TBA **Sino-Forest Corporation, Allen Chan, Albert Ip, Alfred C.T. Hung, George Ho and Simon Yeung**

s. 127

H. Craig in attendance for Staff

Panel: TBA

TBA **Fawad Ul Haq Khan and Khan Trading Associates Inc. carrying on business as Money Plus**

s. 60 and 60.1 of the *Commodity Futures Act*

T. Center in attendance for Staff

Panel: TBA

TBA **Global RESP Corporation and Global Growth Assets Inc.**

s. 127

D. Ferris in attendance for Staff

Panel: TBA

TBA **Issam El-Bouji, Global RESP Corporation, Global Growth Assets Inc., Global Educational Trust Foundation and Margaret Singh**

s. 127 and 127.1

P. Foy in attendance for Staff

Panel: TBA

TBA **Rezwealth Financial Services Inc., Pamela Ramoutar, Justin Ramoutar, Tiffin Financial Corporation, Daniel Tiffin, 2150129 Ontario Inc., Sylvan Blackett, 1778445 Ontario Inc. and Willoughby Smith**

s. 127(1) and (5)

A. Heydon/Y. Chisholm in attendance for Staff

Panel : TBA

TBA. **Moncasa Capital Corporation and John Frederick Collins**

s. 127

T. Center in attendance for Staff

Panel: TBA

TBA **Garth H. Drabinsky, Myron I. Gottlieb and Gordon Eckstein**

s. 127

A. Clark/J. Friedman in attendance for Staff

Panel: TBA

TBA **Vincent Ciccone and Cabo Catoche Corp. (a.k.a. Medra Corp. and Medra Corporation)**

s. 127

M. Vaillancourt in attendance for Staff

Panel: TBA

TBA **Portfolio Capital Inc., David Rogerson and Amy Hanna-Rogerson**

s. 127

J. Lynch in attendance for Staff

Panel: TBA

TBA **Heritage Management Group and Anna Hrynisak**

s. 127

C. Rossi in attendance for Staff

Panel: TBA

TBA **Quadrexx Asset Management Inc., Quadrexx Secured Assets Inc., Offshore Oil Vessel Supply Services LP, Quibik Income Fund and Quibik Opportunities Fund**

s. 127

D. Ferris in attendance for Staff

Panel: TBA

TBA **Blackwood & Rose Inc., Steven Zetchus and Justin Kreller (also known as Justin Kay)**

s. 37, 127 and 127.1

C. Rossi in attendance for Staff

Panel: TBA

ADJOURNED SINE DIE

Global Privacy Management Trust and Robert Cranston

LandBankers International MX, S.A. De C.V.; Sierra Madre Holdings MX, S.A. De C.V.; L&B LandBanking Trust S.A. De C.V.; Brian J. Wolf Zacarias; Roger Fernando Ayuso Loyo, Alan Hemingway, Kelly Friesen, Sonja A. McAdam, Ed Moore, Kim Moore, Jason Rogers and Dave Urrutia

Hollinger Inc., Conrad M. Black, F. David Radler, John A. Boultbee and Peter Y. Atkinson

1.1.2 OSC Investor Roundtable – Investing in Start-ups or Small and Medium Sized Companies

Interested in investing in start-ups or small and medium sized companies? Interested in investing through crowdfunding over the internet?

If so, the OSC wants to hear from you

You are invited to attend an OSC investor roundtable to share your views on investing in start-ups or small and medium sized companies (SMEs).

Date: **Tuesday, June 11, 2013**
9:00 am to 11:00 am

Location: 22nd Floor OSC Training Room
20 Queen Street West, Toronto, Ontario

OSC ONTARIO SECURITIES COMMISSION

Cost: **No charge**

RSVP: Email: exemptmarketconsultations@osc.gov.on.ca
Deadline: Thursday, June 6, 2013
Please note that space is limited so reserve your spot now

WHO SHOULD ATTEND AND WHY?

Anyone who is interested in:

- investing in start-ups or SMEs, or
- learning more about crowdfunding (which involves investing over the internet).

This is your opportunity to share your views with OSC staff. At the session, there will be a brief presentation by OSC staff, followed by an open discussion with attendees.

WHAT IS THE ROUNDTABLE ABOUT?

The OSC is considering ways to help start-ups and SMEs raise money by issuing securities, such as shares. One option under consideration is “crowdfunding”, which would allow businesses to sell securities over the internet. If crowdfunding was adopted, we would need to ensure that there are sufficient protections for investors. For more information, please see the attached note.

The OSC wants to know if you want greater access to investment opportunities in start-ups and SMEs, and, if so, what kind of information you would want to have and how much you would be willing to invest.

1.1.3 OSC Exempt Market Review – Investor Roundtable – Backgrounder

ONTARIO SECURITIES COMMISSION (OSC) EXEMPT MARKET REVIEW
INVESTOR ROUNDTABLE – BACKGROUNDER

JUNE 11, 2013

The OSC is considering ways to help businesses raise money, particularly start-ups and small and medium sized enterprises (SMEs), while protecting the interests of investors. We are considering options for allowing businesses to sell securities (such as shares) to the public without having to prepare and file a prospectus first. There are additional risks when you invest in a business that is not listed on a stock exchange. We want to know if people are interested in making these types of investments and if so, what kind of information they would want to have and how much they would be willing to invest.

The current framework

Shares may not be sold to the public without a prospectus. A prospectus:

- includes detailed information about the business,
- describes the shares and any risks with the investment, and
- provides for some rights to purchasers if the prospectus contains a misleading statement

A business that offers shares to the public under a prospectus becomes a public company. Public companies have certain responsibilities; for example, they must provide ongoing information to the public on how the business is doing. Start-ups and SMEs might want to raise money by selling shares to the public, but may not be ready for the costs and obligations that are involved with being a public company.

In limited cases, shares may be sold without a prospectus. This is typically referred to as an exempt distribution that takes place in the exempt market. There are specific rules that determine when this is allowed. Generally, these rules are based on a rationale that justifies removing the prospectus requirement. For example, an exemption may be based on the idea that a certain type of purchaser is sophisticated or has the resources to obtain expert advice and therefore does not need the information and protections provided by a prospectus.

Exempt purchasers include individuals whose annual net income is at least $200,000, or $300,000 combined with a spouse. They also include people who meet other financial or net worth tests. In Ontario, only about 4% of the general population qualify.

In addition to the requirement to prepare and file a prospectus, persons or companies that are “in the business” of trading in shares or advising others about shares must register with the OSC. There is no requirement for issuers to sell shares using a registrant, but this is usually how shares are sold.

OSC exempt market review

On December 14, 2012, we published OSC Staff Consultation Paper 45-710 *Considerations for New Capital Raising Prospectus Exemptions* (the Consultation Paper). The Consultation Paper describes four concept ideas for new prospectus exemptions in Ontario. One of these concept ideas is “crowdfunding”.

Crowdfunding

Crowdfunding is a term used to describe a method of raising small amounts of money from many people over the internet. There are different types of crowdfunding that currently exist. For example, there are websites that

allow people to raise money for charity. On other websites people raise money for a particular project and in return provide a perk or reward. Currently, in Ontario, businesses are not allowed to raise money from the public over the internet by selling shares.

The Consultation Paper describes a concept idea to allow businesses to sell shares through crowdfunding. Under this concept idea:

- A business could raise up to $1.5 million under this exemption in a 12-month period
- Only certain types of securities could be issued, such as common shares
- An investor could not invest more than $2,500 in a single investment and no more than $10,000 in total in a calendar year
- Some basic information would have to be provided to investors before they purchase the shares
- Investors would have to sign a form acknowledging they are aware of the risks associated with the investment
- Investors would have two days to reconsider their investment and withdraw if they wish
- The shares would be sold through an internet website that is registered with the OSC and that is required to do criminal checks on the individuals involved with the business
- Investors would have limited ability to sell these shares

Topics for discussion

Investing in start-ups and SMEs

1. Would you like to be able to invest in a start-up or SME? Why or why not?
2. What factors would influence whether or not you decide to invest in a particular business?
3. What risks most concern you about investing in start-ups and SMEs?
4. How much would you be willing to invest?

Information you would want first

5. What types of information would you want to have to help you decide whether to invest in a start-up or SME?
6. If you decided to invest, would you want to receive ongoing information from the company on how it is doing? If yes, what information would be most important to you?

Advice

7. Would you seek advice before deciding to invest in a start-up or SME? If so, whose advice would you seek?

Crowdfunding

8. Are you familiar with existing crowdfunding websites that allow people to raise money for projects (but not sell shares), such as Kickstarter, Rockethub and Indiegogo?
9. Would you consider investing in a start-up or SME that wasn't listed on a stock exchange that you learned about over the internet? Why or why not?
10. Would you consider investing in a start-up or SME that was recommended to you by friends over the internet, such as on social media websites?
11. What do you think are the risks associated with investing over the internet?
12. Are you comfortable investing over the internet? If so, what amount of money would you be willing to invest in a business over the internet?

1.1.4 Notice of Correction to Published Notice of Ministerial Approval of Amendments to National Instrument 41-101 General Prospectus Requirements, National Instrument 44-101 Short Form Prospectus Distributions, National Instrument 44-102 Shelf Distributions, National Instrument 81-101 Mutual Fund Prospectus Disclosure and Consequential Amendments to National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards, National Instrument 51-102 Continuous Disclosure Obligations and National Instrument 13-101 System for Electronic Document Analysis and Retrieval

NOTICE OF CORRECTION TO PUBLISHED
NOTICE OF MINISTERIAL APPROVAL OF AMENDMENTS TO

NATIONAL INSTRUMENT 41-101 *GENERAL PROSPECTUS REQUIREMENTS*

AND TO

NATIONAL INSTRUMENT 44-101 *SHORT FORM PROSPECTUS DISTRIBUTIONS*

AND TO

NATIONAL INSTRUMENT 44-102 *SHELF DISTRIBUTIONS*

AND TO

NATIONAL INSTRUMENT 81-101 *MUTUAL FUND PROSPECTUS DISCLOSURE*

AND

CONSEQUENTIAL AMENDMENTS TO NATIONAL INSTRUMENT 52-107 *ACCEPTABLE ACCOUNTING PRINCIPLES AND AUDITING STANDARDS*, NATIONAL INSTRUMENT 51-102 *CONTINUOUS DISCLOSURE OBLIGATIONS* AND NATIONAL INSTRUMENT 13-101 *SYSTEM FOR ELECTRONIC DOCUMENT ANALYSIS AND RETRIEVAL*

(THE NOTICE)

There is a correction to the Notice in Ontario Securities Commission Bulletin (2013), 36 OSCB, Chapter 1 published on May 9, 2013. The Notice inadvertently indicates that the Amendments (as the term is defined in the Notice) were published in Chapter 5 of the Bulletin on February 28, 2013. The Notice should have identified that the Amendments were published in a Supplement of the Bulletin on February 28, 2013. See (2013), 36 OSCB (Supp-2).

1.4.1 Energy Syndications Inc. et al.

FOR IMMEDIATE RELEASE
May 8, 2013

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

AND

IN THE MATTER OF
ENERGY SYNDICATIONS INC.,
GREEN SYNDICATIONS INC.,
SYNDICATIONS CANADA INC.,
DANIEL STRUMOS, MICHAEL BAUM
and DOUGLAS WILLIAM CHADDOCK

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

1. The hearing day scheduled for May 14, 2013 is vacated, and the hearing on the merits will commence at 9:00 a.m. on May 15, 2013, and continue on May 16, 17, 22, 23 and 24, 2013.

2. The time prescribed under Rules 4.3(1), 4.5(1) and 4.5(2) is abridged, pursuant to Rule 1.6(2).

3. Chaddock shall deliver to Staff, by noon on Friday, May 10, 2013, copies of the documents on which he intends to rely at the hearing on the merits, as required pursuant to Rule 4.3(1), his witness list, as required pursuant to Rule 4.5(1), and witness summaries, as required pursuant to Rule 4.5(2).

A copy of the Order dated May 8, 2013 is available at www.osc.gov.on.ca.

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1.4.2 Ronald James Ovenden et al.

FOR IMMEDIATE RELEASE
May 10, 2013

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

AND

IN THE MATTER OF
RONALD JAMES OVENDEN,
NEW SOLUTIONS CAPITAL INC.,
NEW SOLUTIONS FINANCIAL CORPORATION AND
NEW SOLUTIONS FINANCIAL (II) CORPORATION

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

1. The Temporary Order is vacated as against NSFC, NSFII, NSFIII and NSFVI;

2. The hearing in this matter is adjourned to the completion of the Merits Hearing or to such other date or time as set by the Office of the Secretary and agreed to by the parties; and

3. The Temporary Order shall be extended until the completion of the Merits Hearing.

A copy of the Order dated May 9, 2013 is available at www.osc.gov.on.ca.

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1.4.3 Bunting & Waddington Inc. et al.

FOR IMMEDIATE RELEASE
May 13, 2013

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

AND

IN THE MATTER OF
BUNTING & WADDINGTON INC., ARVIND SANMUGAM, JULIE WINGET and JENIFER BREKELMANS

AND

IN THE MATTER OF
A SETTLEMENT AGREEMENT BETWEEN STAFF OF THE ONTARIO SECURITIES COMMISSION AND JENIFER BREKELMANS

TORONTO – The Commission issued an Order in the above named matter approving the Settlement Agreement reached between Staff of the Commission and Jenifer Brekelmans.

A copy of the Order dated May 9, 2013 and Settlement Agreement dated May 8, 2013 are available at www.osc.gov.on.ca.

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1.4.4 Children's Education Funds Inc.

FOR IMMEDIATE RELEASE
May 14, 2013

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

AND

IN THE MATTER OF
CHILDREN'S EDUCATION FUNDS INC.

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

1. As at the close of business on May 10, 2013, the role and activities of the Monitor as set out in paragraphs 5, 6, 8 and 9 of the Terms and Conditions as amended by Commission Orders dated December 6, 2012 and February 27, 2013, and the activity of CEFI as set out in paragraph 8 of the Terms and Conditions are suspended.

2. The Temporary Order is extended to July 22, 2013.

3. The hearing is adjourned to July 19, 2013 at 10:00 a.m. for the purpose of providing the Commission with an update on the work completed by the Consultant.

A copy of the Order dated May 10, 2013 is available at www.osc.gov.on.ca.

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1.4.5 Beryl Henderson

FOR IMMEDIATE RELEASE
May 14, 2013

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

AND

IN THE MATTER OF
BERYL HENDERSON

TORONTO – The Commission issued an Order in the above named matter which provides that the date set for the confidential pre-hearing conference be vacated and that the confidential pre-hearing conference be adjourned to June 12, 2013 at 10:00 a.m. or to such other date as agreed to by the parties and advised by the Office of the Secretary.

The pre-hearing conference will be *in camera*.

A copy of the Order dated May 13, 2013 is available at www.osc.gov.on.ca.

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Chapter 2

Decisions, Orders and Rulings

2.1 Decisions

2.1.1 Integra Capital Limited and Integra Capital Limited

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – Exemption granted from the requirements of paragraphs 2.2(1)(a), 2.5(2)(a), and 2.5(2)(c) of National Instrument 81-102 Mutual Funds to allow a mutual fund subject to NI 81-102 to invest up to 10% of its assets in a bottom pooled fund managed by the same fund manager. Exemption granted on the basis that bottom fund will comply with Parts 2, 4 and 6 of NI 81-102, disclosure about the underlying pooled fund to be provided upon request, to retail investors in the mutual fund as well as to accredited investors, and investors in the mutual fund pursuant to capital accumulation plans (CAPs), among other conditions.

Applicable Legislative Provisions

National Instrument 81-102 Mutual Funds, ss. 2.5(2)(a), 2.5(2)(c), 2.2(1(a).

May 2, 2013

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
INTEGRA EQUITY FUND
(the Fund)

AND

IN THE MATTER OF
INTEGRA CAPITAL LIMITED
(Integra or the Manager)

DECISION

Background

The principal regulator in the Jurisdiction has received an application from Integra, in its capacity as investment fund manager (**Manager**) of the Fund, on behalf of the Fund, for a decision under the securities legislation of the Jurisdiction of the principal regulator (the **Legislation**) for exemptive relief (the **Requested Relief**) from paragraphs 2.2(1)(a), 2.5(2)(a) and (c) of National Instrument 81-102 – *Mutual Funds* (**NI 81-102**) to permit the Fund to invest up to 10% of its net assets in units of Principal U.S. Value Equity Fund (the **Underlying Fund**).

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

(a) the Ontario Securities Commission (the **Commission** or **OSC**) is the principal regulator for this application; and

(b) Integra, on behalf of the Fund, 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, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador (the **Non-Principal Jurisdictions**).

Interpretation

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

Representations

This decision is based on the following facts represented by Integra on behalf of the Fund:

1. Integra is a corporation incorporated under the laws of Ontario and has its head office in the City of Oakville. Integra is the trustee, portfolio manager and investment fund manager of the Fund. Integra is also the trustee and investment fund manager of the Underlying Fund.

2. Integra is registered as a portfolio manager and exempt market dealer in each of the Province of Canada ("**Jurisdictions**"), as a commodity trading manager in Ontario, and as an investment fund manager in Ontario, Quebec and Newfoundland and Labrador.

3. Integra has retained Principal Global Investors LLC, (**PGI**) to manage the portfolio of the Underlying Fund. PGI acts as a sub-advisor to the Underlying Fund pursuant to the exemption under the exemption in section 7.3 of Ontario Securities Commission (**OSC**) Rule 35-502 *Non-Resident Advisers*.

4. Each of the Fund and the Underlying Fund is an open-end mutual fund established under the laws of Ontario.

5. The Fund is a reporting issuer under the securities laws of each of the Jurisdictions. The Fund was offered by simplified prospectus in the Jurisdictions but Integra permitted the Fund's prospectus to lapse on August 25, 2007. The Fund's prospectus was permitted to lapse as Integra decided to withdraw from the retail market.

6. Since August 25, 2007, units of the Fund have been offered only to (a) accredited investors pursuant to the exemption in National Instrument 45-106 *Prospectus Exempt Distributions*, (b) to participants in capital accumulation plans (**CAP Plans**) pursuant to a blanket exemption by the securities regulatory authorities in certain provinces and territories (**CAP Plan Blanket Relief**) (c) to participants in CAP Plans pursuant to specific relief granted in decisions dated October 17, 2006 and November 17, 2009 and issued by the OSC as principal regulator of the Fund in respect of CAP Plans (**CAP Relief**) or (d) pursuant to other specific granted by the OSC in decisions dated September 11, 2009 and January 12, 2010, to permit other investors to invest in the Fund (the **Prior OSC Relief**).

7. The CAP Plan Blanket Relief and the CAP Relief contemplate investments in the Fund by participants in CAP Plans, where the plan sponsor of the CAP Plan selects the Fund as one of the investment options for the CAP Plan. The Prior OSC Relief contemplates (a) continued investments in the Fund by former members of one CAP Plan who maintained their investment in the Fund when they transferred their assets to a locked-in retirement account or (b) investments in the Fund by participants in CAP Plans who also invest in the Fund within non-tax assisted savings plans directly related to their CAP Plans.

8. Apart from retail investors who invested in the Fund prior to August 25, 2007, the only investors in the Fund are accredited investors, investors in CAP Plans and other investors pursuant to the Prior OSC Relief.

9. The Underlying Fund was created by declaration of trust dated July 19, 2012. The Underlying Fund is not, and does not intend to become, a reporting issuer in any of the Jurisdictions.

10. As a mutual fund in Ontario, the Underlying Fund is subject to aspects of securities legislation in the Jurisdictions.

11. Except as noted in paragraph 26, none of the Fund, Integra or the Underlying Fund is in default of any requirements of applicable securities legislation in any of the Jurisdictions.

12. The investment objective of the Fund is:

> "to generate both capital appreciation (growth) and income, while maintaining a relatively low level of risk".

13. The investment objective of the Underlying Fund is:

> "to provide investors with long-term growth of capital. The Fund will focus stock selection within segments of the U.S. market offering below average valuations across the size spectrum".

14. Integra created the Underlying Fund to serve as an investment option for Integra's institutional clients as well as a possible underlying fund for the Fund.

15. The Underlying Fund will generally invest:

    (a) in US value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued; and

    (b) at least 80% of its net assets in equity securities of companies with large market capitalizations (those with market capitalizations similar to companies in the Russell 1000 Value Index) at the time of purchase.

16. The Underlying Fund complies with the restrictions on investments in Part 2 of NI 81-102.

17. Commencing in September 2008, the Fund has invested only in underlying funds to achieve its investment objective. Between September 2008 and August 19, 2012, the underlying funds in which the Fund invested and the maximum investment in each underlying fund was: Integra Canadian Value Growth Fund (70%); Integra International Equity Fund (10%), NWQ U.S. Large Cap Value Fund (**NWQ Fund**) (10%) and Integra Newton Global Equity Fund (10%). Each of these underlying funds is or, in the case of NWQ Fund was, a reporting issuer in each of the Jurisdictions whose units were most recently qualified for distribution under National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (**NI 81-101**) pursuant to a simplified prospectus dated August 23, 2011 in the case of Integra Canadian Value Growth Fund, Integra International Equity Fund and Integra Newton Global Equity Fund, and dated August 25, 2006 in the case of the NWQ Fund. As of August 24, 2012, none of these funds currently offers its units by prospectus due to Integra's decision to withdraw from the retail market.

18. The investment objective of NWQ Fund was to achieve long-term investment returns through a portfolio of U.S. equities, which are sufficiently diversified to minimize investment risk through investments in equities of medium to large capitalized companies based in the United States.

19. On August 20, 2012, Integra terminated the NWQ Fund with the prior approval of its unitholders.

20. Prior to the time when NWQ Fund was terminated with the prior approval of its unitholders, Integra considered whether the former unitholders of NWQ Fund, such as the Fund, should invest in Integra U.S. Value Growth Fund (US Value Growth Fund), another fund managed by Integra and subject to NI 81-102, whose units were qualified by simplified prospectus.

21. Integra determined, however, that US Value Growth Fund was not an appropriate substitute for NWQ Fund as it has only a 50% bias towards U.S. value equity securities whereas the Underlying Fund is 100% biased to U.S. value equity securities. With respect to the Fund, Integra accordingly determined the Underlying Fund to be the more appropriate fund in which the Fund should invest because the investment objective of the Underlying Fund was, in Integra's view, most similar to that of NWQ Fund and more closely aligned with the investment objective of the Fund.

22. Upon termination of the NWQ Fund with the prior approval of its unitholders, including the Fund, the assets of NWQ Fund were then liquidated and investors' investments in NWQ Fund, including investments of the Fund in NWQ Fund, were redeemed. Except for three investors, all other investors in the NWQ Fund, including the Fund, agreed to the investment of their redemption proceeds in units of the Underlying Fund.

23. As at March 1, 2013, the Fund had approximately $21 million in net assets. As at March 1, 2013, institutional investors, other accredited investors and CAP Plan investors held units of the Fund comprising 94% of the Fund's net assets.

24. Once the determination was made to invest the Fund in units of the Underlying Fund, institutional investors in the Fund, other accredited investors, and CAP Plan sponsors were informed in writing by letter from Integra that the Fund would be investing 10% of its net assets in the Underlying Fund. CAP Plan investors were further informed of this by way of a revised Fund profile sheet subsequent to August 2012 in accordance with the disclosure requirements of the CAP Plan Blanket Relief or the conditions of the Prior OSC Relief.

25. The remaining 6% of investors in the Fund have been informed of this investment through:

    (a) disclosure in the Management Report of Fund Performance of the Fund filed March 27, 2013 on SEDAR for the period ending December 31, 2012 ;

    (b) the 2013 Annual Information Form of the Fund filed on SEDAR on March 27, 2013, and;

    (c) the Statement of Investment Policies and Procedures of the Integra Family of Funds which is posted on Integra's website.

26. At the time Integra commenced investments by the Fund in the Underlying Fund on August 20, 2012, through oversight, Integra failed to apply for the Requested Relief to permit such investment as (a) the Underlying Fund did not qualify its units by prospectus as required by section 2.5(2)(a) of NI 81-102 and (b) the Underlying Fund is not a reporting issuer as required by section 2.5(2)(c) of NI 81-102. Consequently, the Fund and Integra are in default of securities legislation in the Jurisdictions with respect to these requirements.

27. As well, as of March 1, 2013, the Fund owned 10.83% of the outstanding voting securities of the Underlying Fund. This investment complied with the control restrictions in section 2.2(1)(a) of NI 81-102 at the time of purchase in August 2012, but has exceeded the 10% restriction in s. 2.2(1)(a) of NI 81-102 since that time due to market fluctuations after the time of purchase.

28. Consequently, depending on the relative sizes of the Fund and the Underlying Fund in the future, the Fund's investment in units of the Underlying Fund could result in the Fund holding more than 10% of the outstanding units of the Underlying Fund which may not be compliant with the requirements of section 2.2(1)(a) of NI 81-102.

29. Accordingly, the Fund and Integra require the Requested Relief to enable the Fund to maintain its position in the Underlying Fund, to allow the Fund to invest up to 10% of its net assets in the Underlying Fund in accordance with section 2.1 of NI 81-102, and to allow the Fund to exceed the control restrictions in section 2.2(1)(a) of NI 81-102 in circumstances where an investment of up to 10% of the Fund's net assets in the Underlying Fund results in the Fund holding more than 10% of the outstanding units of the Underlying Fund.

30. The same dates are used for the calculation of the net asset value of the Fund and the Underlying Fund for the purpose of the issue and redemption of the units of such mutual funds. An investor can redeem an investment in the Underlying Fund on each trading day, namely, any day the Toronto Stock Exchange is open for trading.

31. The Fund will not invest more than 10% of its net assets in the Underlying Fund in accordance with the requirements of s. 2.1(1) of NI 81-102.

32. There will be no duplication of management fees or incentive fees since no management fees or incentive fees are payable by the Fund in respect of its investment in the Underlying Fund.

33. Where a matter relating to the Underlying Fund requires a vote of unitholders of the Underlying Fund at a meeting of unitholders, Integra will not cause the units of the Underlying Fund held by the Fund to be voted at such meeting except that the Fund may, if Integra so chooses, arrange for all units it holds of the Underlying Fund be voted by the beneficial holders of units of the Fund.

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:

(a) the Fund's investments in securities of the Underlying Fund are made in compliance with each provision of section 2.5 of NI 81-102, except for sections 2.5(2)(a) and 2.5(2)(c);

(b) the Fund will not purchase securities of the Underlying Fund if, immediately after the purchase, more than 10% of its net assets taken at market value at the time of the purchase would consist of investments in the Underlying Fund;

(c) the Underlying Fund will comply with the provisions of Part 2, 4 and 6 of N1 81-102 and Part 14 of National Instrument 81-106 *Investment Fund Continuous Disclosure* at all times;

(d) unitholders of the Fund may obtain, upon request and free of charge, a copy of the offering memorandum of the Underlying Fund, if any, and the audited annual financial statements and semi-annual financial statements of the Underlying Fund. The Fund will disclose this information in its Management Report of Fund Performance;

(e) there are compatible dates for the calculation of the net asset value of the Fund and the Underlying Fund for the purpose of the issue and redemption of securities of such mutual funds; and

(f) the name of the Underlying Fund will be disclosed in the Fund's Annual Information Form and its interim and annual Management Report of Fund Performance as long as the Fund holds a position in the Underlying Fund.

"Darren McKall"
Manager, Investment Funds
Ontario Securities Commission

2.1.2 FT Portfolios Canada Co.

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – Exemptive relief granted to exchange-traded funds for initial and continuous distribution of units – Relief to permit the funds' prospectus to not contain an underwriter's certificate and relief from take-over bid requirements in connection with normal course purchases of units on the Toronto Stock Exchange subject to undertaking by unitholders not to exercise any votes attached to units which represent more than 20% of the votes attached to all outstanding units of the funds – Certificate Relief subject to sunset clause – Securities Act (Ontario).

Applicable Legislative Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 74(1), 95-100, 104(2)(c), 147.

April 30, 2013

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
FT PORTFOLIOS CANADA CO.
(the "Filer")

DECISION

Background

The principal regulator has received an application from the Filer for a decision under the securities legislation of the Jurisdiction (the "**Legislation**") for exemptive relief from the Legislation so that:

1. all purchasers ("**Unitholders**") of units ("**Units**") of First Trust AlphaDEX Canadian Dividend Plus ETF, First Trust AlphaDEX U.S. Dividend Plus ETF, First Trust AlphaDEX Emerging Market Dividend ETF, First Trust AlphaDEX Global Energy Income Plus ETF, First Trust Senior Loan ETF (the "**Proposed Funds**") and any additional exchange-traded funds of which the Filer, or an affiliate of the Filer, may be the trustree and/or manager and which operate on a similar basis as the Proposed Funds (the "**Future Funds**", which together with the Proposed Funds are collectively referred to as the "**Funds**") be exempted from the requirements of the Legislation related to take-over bids (the "**Take-Over Bid Exemption**"), including the requirement to file a report of a take-over bid and the accompanying fee with each applicable Jurisdiction, (the "**Take-Over Bid Requirements**") in respect of take-over bids for the Funds; and

2. the Funds are exempt from the requirement that the prospectus of the Funds contain a certificate of the underwriter or underwriters who are in a contractual relationship with the Funds (the "**Underwriter Certificate Exemption**", and together with the Take-Over Bid Exemption, the "**Exemption Sought**").

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

1. the OSC is the principal regulator for this application; and

2. 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, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Yukon, Northwest Territories and Nunavut.

Interpretation

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

"Basket of Securities" means a group of securities determined by the Filer from time to time representing the constituents of the investment portfolio then held by the Funds.

"Designated Brokers" means registered brokers and dealers that enter into agreements with the Funds to perform certain duties in relation to the Funds.

"Prescribed Number of Units" means the number of Units of the Funds determined by the Filer from time to time for the purpose of subscription orders, exchanges, redemptions or for other purposes.

"Underwriters" means registered brokers and dealers that have entered into underwriting agreements with the Funds and that subscribe for and purchase Units from the Funds, and

"Underwriter" means any one of them.

"Unitholders" means beneficial and registered holders of Units.

Terms defined in National Instrument 14-101 – *Definitions*, Multilateral Instrument 11-102 – *Passport System* and NI

81-102 – *Mutual Funds* ("**NI 81-102**") have the same meaning if used in this decision, unless otherwise defined.

Representations

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

1. The Funds are or will be mutual funds trusts governed by the laws of Ontario and will be reporting issuers under the laws of all of jurisdictions in Canada.

2. The Filer will apply to list the Units of the Funds on the TSX. The Filer will not file a final prospectus for the Funds until the TSX has conditionally approved the listing of Units.

3. The Funds will be generally described as exchange-traded funds.

4. The Filer, a registered mutual fund dealer and investment fund manager in Ontario, is the trustee and manager of the Funds and is responsible for the administration of the Funds.

5. First Trust Advisors L.P., a registered portfolio manager, will act as portfolio advisor to the Proposed Funds.

6. Generally, Units may only be subscribed for or purchased directly from the Funds by Underwriters or Designated Brokers and orders may only be placed for Units in the Prescribed Number of Units (or an integral multiple thereof) on any day when there is a trading session on the TSX.

7. The Funds will appoint Designated Brokers to perform certain functions which include standing in the market with a bid and ask price for Units of the Funds for the purpose of maintaining liquidity for the Units.

8. Each Underwriter or Designated Broker that subscribes for Units must deliver, in respect of each Prescribed Number of Units to be issued, a Basket of Securities and cash in an amount sufficient so that the value of the Basket of Securities and cash delivered is equal to the net asset value of the Units subscribed for next determined following the receipt of the subscription order. In the discretion of the Filer, the Funds may also accept subscriptions for Units in cash only, in securities other than Baskets of Securities and/or in a combination of cash and securities other than Baskets of Securities, in an amount equal to the net asset value of the Units next determined following the receipt of the subscription order.

9. The net asset value per Unit of each class of the Funds will be calculated and published daily at www.firsttrust.ca.

10. Upon notice given by the Filer from time to time and, in any event, not more than once quarterly, a Designated Broker will subscribe for Units in cash in an amount not to exceed 0.30% of the net asset value of the Units of the class, or such other amount established by the Filer and disclosed in the prospectus of the Funds, next determined following delivery of the notice of subscription to that Designated Broker.

11. Neither the Underwriters nor the Designated Brokers will receive any fees or commissions in connection with the issuance of Units to them. The Filer may, at its discretion, charge an administration fee on the issuance of Units to the Designated Brokers or Underwriters.

12. Except as described in paragraphs 6 through 11 above, Units may not be purchased directly from the Funds. Investors are generally expected to purchase Units through the facilities of the TSX. However, Units may be issued directly to Unitholders upon the reinvestment of distributions of income or capital gains.

13. Unitholders that wish to dispose of their Units may generally do so by selling their Units on the TSX, through a registered broker or dealer, subject only to customary brokerage commissions. A Unitholder that holds a Prescribed Number of Units or an integral multiple thereof may exchange such Units for Baskets of Securities and cash; Unitholders may also redeem their Units for cash at a redemption price equal to 95% of the closing price of the Units on the TSX on the date of redemption.

14. As manager, the Filer receives a fixed annual fee from the Funds. Such annual fee is calculated as a fixed percentage of the net asset value of the Units of each class. As manager, the Filer is responsible for all costs and expenses of the Funds except the management fee, the costs and expenses incurred in complying with NI 81-107 (including any expenses related to the implementation and on-going operation of an independent review committee), brokerage expenses and commissions, income and withholding taxes as well as all other applicable taxes, including HST, the costs of complying with any new governmental or regulatory requirement introduced after establishment of the Funds and extraordinary expenses.

15. Unitholders have, or will have, the right to vote at a meeting of Unitholders in respect of the matters prescribed by NI 81-102 *Mutual Funds*.

16. The Filer, on behalf of the Funds, may enter into various continuous distribution dealer agreements with registered dealers (that may or may not be Designated Brokers) pursuant to which the Underwriters may subscribe for Units of one or

more of the Funds. However, no Underwriter would be involved in the preparation of the Funds' prospectus and no Underwriter would perform any review or any independent due diligence of the contents of the Funds' prospectus. In addition, the Funds will not pay any commissions to the Underwriters. As the Underwriters will not receive any remuneration for distributing Units and as the Underwriters will change from time to time, it is not practical to provide an underwriters' certificate in the prospectus of the Funds.

17. Although Units of the Funds will trade on the TSX and the acquisition of Units can therefore be subject to the Take-over Bid Requirements:

    (a) it is not, or will not, be possible for one or more Unitholders to exercise control or direction over a Fund as the declaration of trust of the Funds provides, or will provide, that a person who holds (either alone or jointly with another person or persons) 20% or more of the Units of a Fund may not exercise any voting rights attached to Units that represent more than 20% of the votes attached to all outstanding Units of that Fund;

    (b) it is, or will be, difficult for purchasers of Units of a Fund to monitor compliance with Take-over Bid Requirements because the number of outstanding Units will always be in flux as a result of the ongoing issuance and redemption of Units by each Fund; and

    (c) the way in which Units of a Fund are, or will be, priced deters anyone from either seeking to acquire control, or offering to pay a control premium, for outstanding Units because Unit pricing for each Fund is, or will be, dependent upon the performance of the portfolio of the Fund as a whole.

18. The application of the Take-over Bid Requirements to the Funds would have an adverse impact on Unit liquidity because they could cause Designated Brokers and other large Unitholders to cease trading Units once prescribed take-over bid thresholds are reached. This, in turn, could serve to provide conventional mutual funds with a competitive advantage over the Funds.

19. This decision shall not be construed as granting relief from any prospectus delivery requirement under the Legislation.

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 is that the Exemption Sought is granted so long as a purchaser of Units of a Fund ("**Unit Purchaser**"), and any person or company acting jointly or in concert with the Unit Purchaser (a "**Concert Party**"), prior to making any take-over bid for Units of the Fund that is not otherwise exempt from the Take-over Bid Requirements, provides the Filer with an undertaking not to exercise any votes attached to the Units held by the Unit Purchaser and any Concert Party that represent more than 20% of the votes attached to the outstanding Units of the Fund.

This decision as it relates solely to the Underwriter Certificate Exemption shall terminate on the earlier of (a) August 31, 2013; and (b) an amendment to this decision that is agreed to by staff of the principal regulator and the Filer and that addresses the applicable prospectus delivery obligations.

"James E.A. Turner"
Vice-Chair
Ontario Securities Commission

"James D. Carnwath"
Commissioner
Ontario Securities Commission

2.1.3 Plazacorp Retail Properties Ltd.

Headnote

Multilateral Instrument 11-102 – Passport System and National Policy 11-203 – Process for Exemptive Relief Applications in Multiple Jurisdictions – Takeover Bids – Identical consideration – Issuer needs relief from the requirement in section 2.23 of Multilateral Instrument 62-104 Take-Over-Bids and Issuer Bids and subsection 97(1) of the Securities Act (Ontario) that all holders of the same class of securities must be offered identical consideration – Under the bid, Canadian resident unitholders will receive shares, cash or a combination thereof; unitholders resident in the U.S. or otherwise outside of Canada who are ineligible to receive shares will receive substantially the same value as Canadian shareholders in the form of cash paid based on the proceeds from the sale of their shares.

Applicable Legislative Provisions

Multilateral Instrument 62-104 – Take-over Bids and Issuer Bids, s. 2.23(1).
Securities Act (Ontario), R.S.O. 1990, c. S.5, s. 97(1).

May 8, 2013

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
PLAZACORP RETAIL PROPERTIES LTD.
(the Filer)

DECISION

Background

The securities regulatory authority or regulator in the Jurisdiction (the **Decision Maker**) has received an application from the Filer for a decision under the securities legislation of the Jurisdiction (the **Legislation**) exempting the Filer from subsection 2.23(1) of Multilateral Instrument 62-104 *Take-Over Bids and Issuer Bids* (**MI 62-104**) and subsection 97(1) of the *Securities Act* (Ontario) (the **Identical Consideration Requirement**), which require the Filer to offer identical consideration to all of the holders of the same classes of securities that are subject to a take-over bid in connection with the Filer's offer (the **Offer**) to acquire all of the issued and outstanding trust units (the **Units**) of KEYreit (**KEYreit**) (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; 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 British Columbia, Alberta, Saskatchewan, Manitoba, Québec, Nova Scotia, New Brunswick, Newfoundland and Labrador, Prince Edward Island, Nunavut, the Northwest Territories and Yukon.

Interpretation

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

Representations

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

1. The Filer is a corporation existing under the *Business Corporations Act* (New Brunswick). The registered and head office of the Filer is located in Fredericton, New Brunswick.

2. The Filer is a reporting issuer in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, Nova Scotia, New Brunswick, Newfoundland & Labrador and Prince Edward Island. The Filer is not in default of any requirement of securities legislation applicable to it.

3. The authorized share capital of the Filer consists of an unlimited number of common shares (the Filer Shares) and an unlimited number of preferred shares, issuable in series. As of April 11, 2013, there were 64,344,854 Filer Shares issued and outstanding and no preferred shares issued and outstanding.

4. The Filer Shares are listed and posted for trading on the TSX Venture Exchange (the TSX-V).

5. KEYreit is an unincorporated, open-ended real estate investment trust established under the laws of the Province of Ontario pursuant to an amended and restated declaration of trust dated July 9, 2012. The registered and head office of KEYreit is located in Toronto, Ontario. KEYreit is a reporting issuer in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, Nova Scotia, New Brunswick, Newfoundland & Labrador and Prince Edward Island. The Units are listed and posted for trading on the Toronto Stock Exchange.

6. The authorized capital of KEYreit consists of an unlimited number of Units and an unlimited number of special voting units. As at March 24, 2013 (the date preceding the date on which the Filer and KEYreit entered into the Original Support Agreement referred to below), there were 14,885,879 Units outstanding and no special voting units outstanding. KEYreit also has three series of convertible debentures outstanding (the **KEYreit Debentures)**. As at March 24, 2013, there were an aggregate of $53,200,000 in principal amount of KEYreit Debentures outstanding. The KEYreit Debentures are convertible into 6,470,895 Units.

7. On March 25, 2013, the Filer and KEYreit entered into a support agreement (the **Original Support Agreement**) pursuant to which KEYreit agreed to support the Filer's original offer to acquire all of the outstanding Units for consideration equal to $8.00 per Unit on a basis which would allow holders of Units to receive cash and/or Filer Shares. On April 4, 2013, the Filer and KEYreit entered into an amended and restated support agreement (the **Support Agreement**) pursuant to which KEYreit agreed to support the Filer's amended offer to acquire all of the outstanding Units for consideration equal to $8.35 per Unit on a basis which would allow holders of Units to receive cash and/or Filer Shares.

8. On April 10, 2013, the Filer mailed an offer to purchase and circular to registered holders of Units (the **Unitholders**) and holders of the KEYreit Debentures and filed the same with the Canadian securities regulatory authorities, thereby officially commencing the Take-Over Bid.

9. As consideration for each Unit, the Filer has offered pursuant to the Take-Over Bid, at the option of the holders of Units, either (i) $8.35 cash, (ii) 1.7401 Filer Shares, or (iii) any combination thereof, subject in each case to proration. The maximum amount of cash payable by the Filer and the maximum number of Filer Shares issuable pursuant to the Take-Over Bid are both capped at 50% of the total consideration offered.

10. The Take-Over Bid is scheduled to expire at 8:00 p.m. (Toronto time) on May 16, 2013.

11. The Filer Shares issuable under the Take-Over Bid have not been and will not be registered under the U.S. *Securities Act of 1933*, as amended (the **1933 Act**) or any state securities (or blue sky) laws in the United States. Although, as discussed below, the Filer Shares issuable under the Take-Over Bid will be exempt from the registration requirements of the 1933 Act, the issuance of Filer Shares to certain classes of holders of Units in the United States (**Ineligible U.S. Unitholders**)[1] under the Take-Over Bid will not be exempt from the registration requirements of a substantial number of U.S. state securities laws. Because the Filer Shares will not be registered under any U.S. state securities laws, the offer or sale of Filer Shares under the Take-Over Bid to Ineligible U.S. Unitholders would violate certain U.S. state securities laws.

12. Rule 802 under the 1933 Act (**Rule 802**) provides an exemption from the registration requirements of the 1933 Act for offers and sales in any exchange offer for a class of securities of a "foreign private issuer" (as defined in Rule 405 of Regulation C under the 1933 Act) or in any exchange of securities for the securities of a foreign private issuer in any business combination if the holders of the foreign subject company resident in the U.S. hold no more than 10% of the securities that are the subject of the exchange offer or business combination and the other conditions of Rule 802 are satisfied. Rule 802 and the related rules provide that, for the purposes of this calculation, securities held by the offeror are to be excluded.

13. To the knowledge of the Filer, KEYreit is a "foreign private issuer" within the meaning of Rule 405 of Regulation C under the 1933 Act.

14. To the knowledge of the Filer, after review of a news release filed by First Eagle Investment Management, LLC, an entity identified as having a U.S. mailing address, and the list of “non-objecting beneficial owners” provided to the Filer by KEYreit on April 5, 2012, approximately 6.60% of the Units were held by U.S. holders as defined in Rule 802 (**U.S. Unitholders**) as of April 1, 2013. The Filer plans to satisfy the other requirements of Rule 802. Accordingly, the offer and sale of the Filer Shares in the Take-Over Bid will be exempt from the registration requirements of the 1933 Act..

15. In order for the exemption provided in Rule 802 to apply, holders resident in the U.S. must be permitted to participate in the exchange offer or business combination on terms at least as favourable to those offered to the other holders of the subject securities, subject to an exception which allows the offeror to offer cash consideration (in lieu of the offered securities) to securityholders resident in states of the U.S. that require registration or qualification of the offered securities under applicable state or local securities laws.

16. There is no general exemption from U.S. state "blue sky" laws that coordinates with Rule 802. As

[1] For purposes of the Take-Over Bid, the term "Ineligible U.S. Unitholders" includes any U.S. Unitholder who does not qualify as an exempt "institutional investor" within the meaning of the securities laws and regulations of such U.S. Unitholder's U.S. jurisdiction.

a result, the securities laws of a significant number of U.S. states would prohibit delivery of the Filer Shares to U.S. Unitholders without registration of the Filer Shares to be issued to U.S. Unitholders resident in such states unless such holders are otherwise exempt investors under the laws of such states.

17. Registration under applicable state securities laws of the Filer Shares deliverable to Ineligible U.S. Unitholders would be costly and burdensome to the Filer.

18. The Filer proposes, with respect to Ineligible U.S. Unitholders and Unitholders in other jurisdictions where local laws do not permit Unitholders to receive Filer Shares that would otherwise receive Filer Shares in exchange for their Units, to, at the sole discretion of the Filer, have such Filer Shares issued on their behalf to a selling agent, which shall, as agent for such Unitholders, as expeditiously as is commercially reasonable thereafter, sell such Filer Shares on their behalf through the facilities of the TSX-V and have the net proceeds of such sale, less any applicable brokerage commissions, other expenses and withholding taxes, delivered to such Unitholders. Each Unitholder for whom Filer Shares are sold by the selling agent will receive an amount equal to such Unitholder's pro rata interest in the net proceeds of sales of all Filer Shares so sold by the selling agent.

19. Any sale of the Filer Shares described above will be done in a manner intended to maximize the consideration to be received from the sale and minimize any adverse impact of the sale on the market for the Filer Shares.

20. The take-over bid circular prepared and mailed to holders of Units in connection with the Take-Over Bid discloses the procedure to be followed with respect to Ineligible U.S. Unitholders that deposit their Units under the Take-Over Bid.

21. There is currently a "liquid market" (as such term is defined in Section 1.2 of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*) for the Filer Shares and the Filer's financial advisor has advised that in its view there will continue to be such a "liquid market" for the Filer Shares following completion of the Take-Over Bid, any related second-step transaction and the sale of the Filer Shares on behalf of Ineligible U.S. Unitholders and Unitholders in other jurisdictions where local laws do not permit Unitholders to receive Filer Shares as described in paragraph 18 above.

22. If the Filer increases the consideration offered to holders of Units resident in Canada, the increase in consideration will also be offered to holders of Units resident outside of Canada, including Ineligible U.S. Unitholders, at the same time and on the same basis.

23. Except to the extent that the relief requested herein is granted, the Take-Over Bid will otherwise be made in compliance with the requirements governing take-over bids under MI 62-104, the OSA and OSC Rule 62-504 – Take-Over Bids and Issuer Bids.

Decision

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

The decision of the Decision Maker under the Legislation is that the Exemption Sought is granted so that the Filer is exempt from the Identical Consideration Requirement, provided that Ineligible U.S. Unitholders and Unitholders in other jurisdictions where local laws do not permit Unitholders to receive Filer Shares that would otherwise receive Filer Shares under the Offer instead receive cash proceeds from the sale of those Filer Shares in accordance with the procedure set out in paragraph 18 above.

DATED this 8th day of May, 2013.

"James D. Carnwath"
Commissioner
Ontario Securities Comission

"Christopher Portner"
Commissioner
Ontario Securities Commission

2.1.4 NAV Canada

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – Reporting issuer seeking relief so that it can continue to file financial statements in accordance with pre-changeover Canadian GAAP (rather than IFRS) for periods relating to the issuer's financial year beginning on September 1, 2014 and ending on August 31, 2015 (the issuer's deferred financial year) – In particular, the issuer is seeking relief from the requirements in Part 3 of National Instrument 52-107 that would apply to financial statements for periods relating to the issuer's deferred financial year – The issuer is also seeking relief from the IFRS-related amendments to the continuous disclosure, prospectus, certification and audit committee rules (collectively, the rules) that came into force on January 1, 2011 and that would apply to periods relating to the issuer's deferred financial year – The issuer is a "rate regulated entity" as defined in Accounting Guideline 19 Disclosures by entities subject to rate regulation (AcG-19) in Part V of the Handbook of the Canadian Institute of Chartered Accountants – At its meeting in February 2013, the Canadian Accounting Standards Board decided that rate regulated entities, as defined in and applying AcG-19, will only be required to adopt IFRS for annual periods beginning on or after January 1, 2015 – Since Part 3 of NI 52-107 and the IFRS-related amendments to the rules do not have a provision providing for a four-year deferral of the transition to IFRS for entities with rate-regulated activities subject to NI 52-107 and the Rules, the issuer has applied for the variation – Variation granted, subject to a number of conditions.

Applicable Legislative Provisions

National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards, Parts 3 and 4.
National Instrument 51-102 Continuous Disclosure Obligations.
National Instrument 41-101 General Prospectus Requirements.
National Instrument 44-101 Short Form Prospectus Distributions.
National Instrument 44-102 Shelf Distributions.
National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings.
National Instrument 52-110 Audit Committees.

May 7, 2013

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ONTARIO

AND

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

AND

IN THE MATTER OF
NAV CANADA (THE "FILER")

DECISION

Background

1. The Filer has obtained exemptive relief under Ontario securities legislation (the "**Legislation**") from the Ontario Securities Commission in the decision of the Ontario Securities Commission dated July 4, 2012 that, subject to certain conditions, provided an exemption from and a deferral of:

   (a) the requirements in Part 3 of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* ("**NI 52-107**") that apply to financial statements, financial information, operating statements and pro forma financial statements for periods relating to the Filer's financial year beginning on September 1, 2012 and ending on August 31, 2013 (the "**Filer's deferred financial year**");

   (b) the amendments to National Instrument 51-102 *Continuous Disclosure Obligations* ("**NI 51-102**") related to International Financial Reporting Standards ("**IFRS**") that came into force on January 1, 2011 and that apply to documents required to be prepared, filed, delivered, or sent under NI 51-102 for periods relating to the Filer's deferred financial year;

(c) the IFRS-related amendments to National Instrument 41-101 *General Prospectus Requirements* ("**NI 41-101**") that came into force on January 1, 2011 and that apply to a preliminary prospectus, an amendment to a preliminary prospectus, a final prospectus or an amendment to a final prospectus of the Filer which includes or incorporates by reference financial statements of the Filer in respect of periods relating to the Filer's deferred financial year;

(d) the IFRS-related amendments to National Instrument 44-101 *Short Form Prospectus Distributions* ("**NI 44-101**") that came into force on January 1, 2011 and that apply to a preliminary short form prospectus, an amendment to a preliminary short form prospectus, a final short form prospectus or an amendment to a final short form prospectus of the Filer which includes or incorporates by reference financial statements of the Filer in respect of periods relating to the Filer's deferred financial year;

(e) the IFRS-related amendments to National Instrument 44-102 *Shelf Distributions* ("**NI 44-102**") that came into force on January 1, 2011 and that apply to a preliminary base shelf prospectus, an amendment to a preliminary base shelf prospectus, a base shelf prospectus, an amendment to a base shelf prospectus or a shelf prospectus supplement of the Filer which includes or incorporates by reference financial statements of the Filer in respect of periods relating to the Filer's deferred financial year;

(f) the IFRS-related amendments to National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("**NI 52-109**") that came into force on January 1, 2011 and that apply to annual filings and interim filings for periods relating to the Filer's deferred financial year; and

(g) the IFRS-related amendments to National Instrument 52-110 *Audit Committees* ("**NI 52-110**") that came into force on January 1, 2011 and that apply to periods relating to the Filer's deferred financial year (collectively, such exemptions and deferrals represent the "**Granted Relief**").

2. On December 20, 2012, the OSC issued a decision granting NAV, subject to certain conditions, a discretionary order under Section 144(1) of the Act varying the Granted Relief such that: (i) the exemption from and deferral of the mandatory changeover date to IFRS under NI 52-107 and the Rules were extended for one additional year to include NAV's financial year beginning on September 1, 2013 and ending on August 31, 2014; and (ii) NAV will be required to adopt IFRS for annual periods beginning on or after January 1, 2014 (the "**Granted Variation**").

3. The Ontario Securities Commission has received an application from the Filer under Section 144(1) of the Act for a variation of the Granted Variation such that: (i) the exemption from and deferral of the mandatory changeover date to IFRS under NI 52-107 and the Rules (as defined below) will be extended for one additional year to include the Filer's financial year beginning on September 1, 2014 and ending on August 31, 2015; and (ii) the Filer will be required to adopt IFRS for annual periods beginning on or after January 1, 2015 (the "**Variation Sought**").

4. 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 in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador and in the Yukon Territory, the Northwest Territories and Nunavut.

Interpretation

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

Representations

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

1. The Filer was incorporated under Part II of the *Canada Corporations Act* (Ontario) on May 26, 1995 and will be continued under the *Canada Not-for-profit Corporations Act*.

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

3. The Filer is a non-share capital corporation.

4. The Filer is a "reporting issuer" within the meaning of applicable securities legislation in each of the provinces and territories of Canada.

5. The Filer has $2.0 billion of outstanding bonds and notes. These debt instruments do not trade on any exchange.

6. The Filer is not in default of securities legislation in any jurisdiction as at May 7, 2013.

7. The Filer's fiscal year end is August 31.

8. The Filer is an entity whose activities are subject to rate regulation as described in Accounting Guideline 19 – *Disclosures by entities subject to rate regulation* ("**AcG-19**") in the Handbook of the Canadian Institute of Chartered Accountants (the "**Handbook**"). As such, the Filer applies AcG-19 in the preparation of its financial statements in accordance with Part V of the Handbook – Canadian generally accepted accounting principles for public enterprises that is the pre-changeover accounting standards ("**pre-changeover Canadian GAAP**").

9. As part of the changeover to IFRS in Canada, the Canadian Accounting Standards Board (the "**AcSB**") has incorporated IFRS into the Handbook as Canadian GAAP for most publicly accountable enterprises, including the Filer. As a result, the Handbook contains two sets of standards for publicly accountable enterprises:

   (a) Part I of the Handbook – Canadian GAAP for publicly accountable enterprises that applies for financial years beginning on or after January 1, 2011; and

   (b) pre-changeover Canadian GAAP.

10. On October 1, 2010, the AcSB published amendments to Part 1 of the Handbook that provided a one-year deferral of the transition to IFRS for entities with qualifying rate-regulated activities. The amendments required such entities, as defined in and applying AcG-19, to adopt IFRS for annual periods beginning on or after January 1, 2012.

11. On December 10, 2010, the Ontario Securities Commission and the Canadian Securities Administrators, as applicable, published "IFRS-Related Amendments to Securities Rules and Policies" (the "**2010 Amendments**") as part of the changeover to IFRS. As part of this changeover, NI 52-107 was repealed and replaced effective January 1, 2011. In the new version of NI 52-107,

   (a) Part 3 contains requirements based on IFRS and applies to financial statements, financial information, operating statements and pro forma financial statements for periods relating to financial years beginning on or after January 1, 2011;

   (b) Part 4 contains requirements based on pre-changeover Canadian GAAP and applies to financial statements, financial information, operating statements and pro forma financial statements for periods relating to financial years beginning before January 1, 2011; and

   (c) Section 5.4 permits qualifying rate-regulated entities to defer transition to IFRS for one year. Such entities are required to transition to IFRS for periods relating to financial years beginning on or after January 1, 2012 pursuant to NI 52-107.

12. The 2010 Amendments also made amendments to NI 51-102, NI 41-101, NI 44-101, NI 44-102, NI 52-109 and NI 52-110 (collectively, the "**Rules**") and these amendments came into force on January 1, 2011. Among other things, the 2010 Amendments replace Canadian GAAP terms and phrases with IFRS terms and phrases and contain IFRS-specific requirements. The amendment instruments for the Rules contain transition provisions that provide that the IFRS-related amendments only apply to documents required to be filed under the Rules for periods relating to financial years beginning, for most entities, on or after January 1, 2011. Thus, during the IFRS transition period,

   (a) issuers filing financial statements prepared in accordance with pre-changeover Canadian GAAP will be required to comply with the versions of the Rules that contain Canadian GAAP terms and phrases, and

   (b) issuers filing financial statements that comply with IFRS will be required to comply with the versions of the Rules that contain IFRS terms and phrases and IFRS-specific requirements.

13. The 2010 Amendments to the Rules are consistent with the exception for rate-regulated entities in Section 5.4 of NI 52-107, permitting rate-regulated entities to defer transition to IFRS until financial years beginning on or after January 1, 2012.

14. In March 2012, the AcSB decided to extend the deferral of the mandatory changeover date to IFRS for an additional year, such that entities with qualifying rate-regulated activities, as defined in and applying AcG-19, would only be required to adopt IFRS for annual periods beginning on or after January 1, 2013.

15. On July 4, 2012, the Decision Maker issued a decision that, subject to the conditions contained therein, provided the Filer with the Granted Relief.

16. In September 2012, the AcSB announced a further extension of the deferral of the mandatory changeover date to IFRS for an additional year, such that entities with qualifying rate-regulated activities, as defined in and applying AcG-19, are only required to adopt IFRS for annual periods beginning on or after January 1, 2014.

17. On December 20, 2012, the Decision Maker issued a decision that, subject to the conditions contained therein, provided the Filer with the Granted Variation.

18. In February 2013, the AcSB announced a further extension of the deferral of the mandatory changeover date to IFRS for an additional year, such that entities with qualifying rate-regulated activities, as defined in and applying AcG-19, are only required to adopt IFRS for annual periods beginning on or after January 1, 2015.

19. The March 2012, September 2012 and February 2013 decisions of the AcSB, each to extend by one year the deferral of the mandatory changeover date to IFRS for entities with qualifying rate-regulated activities, are not currently reflected in NI 52-107 and the Rules.

20. NI 52-107 and the Rules apply to the Filer. Since Part 3 of NI 52-107 and the 2010 Amendments to the Rules do not have a provision providing for a four-year deferral of the transition to IFRS for entities with rate-regulated activities subject to NI 52-107 and the Rules, the Filer has applied for the Variation Sought.

21. During the entire period of the Granted Relief and the Granted Variation, as extended by the Variation Sought, (the "**Filer's deferred financial years**"), the Filer will comply with section 1.13 of Form 51-102F1 *Management's Discussion and Analysis* ("**MD&A**") by providing an updated discussion of the Filer's preparations for changeover to IFRS in its annual and interim MD&A. In particular, the Filer will discuss the expected effect on the financial statements, or state that the effect cannot be reasonably estimated.

22. The Filer acknowledges that if the Variation Sought is granted, the Filer:

    (a) will be subject to Part 3 of NI 52-107 and the 2010 Amendments to the Rules for periods relating to financial years beginning on or after January 1, 2015; and

    (b) will not have the benefit of the 30 day extension to the deadline of filing the first interim financial report in the year of adopting IFRS in respect of an interim period beginning on or after January 1, 2011, as set out in the IFRS-related amendments to NI 51-102, since that extension does not apply if the first interim financial report is in respect of an interim period ending after March 30, 2012.

Decision

The Ontario Securities Commission is satisfied that the decision meets the test set out in the Legislation.

The decision of the Ontario Securities Commission under the Act is that the Variation Sought is granted provided that:

(a) the Filer continues to be an entity with qualifying rate-regulated activities, as defined in and applying AcG-19;

(b) the Filer provides the communication as described and in the manner set out in paragraph 21 above;

(c) the Filer complies with the requirements in Section 5.4 of NI 52-107 for all financial statements (including interim financial statements), financial information, operating statements and pro forma financial statements for periods relating to the Filer's deferred financial years, as if the expression "January 1, 2012" in Section 5.4 were read as "January 1, 2015";

(d) the Filer complies with the version of NI 51-102 that was in effect on December 31, 2010 (together with any amendments to NI 51-102 that are not related to IFRS and that come into force after January 1, 2011) for all documents required to be prepared, filed, delivered, or sent under NI 51-102 for periods relating to the Filer's deferred financial years;

(e) the Filer complies with the version of NI 41-101 that was in effect on December 31, 2010 (together with any amendments to NI 41-101 that are not related to IFRS and that come into effect after January 1, 2011) for any preliminary prospectus, amendment to a preliminary prospectus, final prospectus or amendment to a final prospectus of the Filer which includes or incorporates by reference financial statements of the Filer in respect of periods relating to the Filer's deferred financial years;

(f) the Filer complies with the version of NI 44-101 that was in effect on December 31, 2010 (together with any amendments to NI 44-101 that are not related to IFRS and that come into effect after January 1, 2011) for any preliminary short form prospectus, amendment to a preliminary short form prospectus, final short form prospectus or amendment to a final short form prospectus of the Filer which includes or incorporates by reference financial statements of the Filer in respect of periods relating to the Filer's deferred financial years;

(g) the Filer complies with the version of NI 44-102 that was in effect on December 31, 2010 (together with any amendments to NI 44-102 that are not related to IFRS and that come into effect after January 1, 2011) for any preliminary base shelf prospectus, amendment to a preliminary base shelf prospectus, base shelf prospectus, amendment to a base shelf prospectus or shelf prospectus supplement of the Filer which includes or incorporates by reference financial statements of the Filer in respect of periods relating to the Filer's deferred financial years;

(h) the Filer complies with the version of NI 52-109 that was in effect on December 31, 2010 (together with any amendments to NI 52-109 that are not related to IFRS and that come into effect after January 1, 2011) for all annual filings and interim filings for periods relating to the Filer's deferred financial years;

(i) the Filer complies with the version of NI 52-110 that was in effect on December 31, 2010 (together with any amendments to NI 52-110 that are not related to IFRS and that come into effect after January 1, 2011) for periods relating to the Filer's deferred financial years;

(j) if, notwithstanding this decision, the Filer decides not to rely on the Variation Sought and files an interim financial report prepared in accordance with IFRS for an interim period in a deferred financial year, the Filer must, at the same time:

  (i) restate, in accordance with IFRS, any interim financial statements for any previous interim period in the same deferred financial year (each, a "**Previous Interim Period**") that were originally prepared in accordance with pre-changeover Canadian GAAP and filed pursuant to this decision; and

  (ii) file a restated interim financial report prepared in accordance with IFRS for each Previous Interim Period, together with corresponding restated interim MD&A and certificates required by NI 52-109. For greater certainty, any restated interim financial report for a Previous Interim Period must comply with applicable securities legislation (including Part 3 of NI 52-107 and the amendments to Part 4 of NI 51-102 that came into force on January 1, 2011) and any restated interim financial report for the first interim period in a deferred financial year must include the opening IFRS statement of financial position at the date of transition to IFRS; and

(k) if, notwithstanding this decision, the Filer decides not to rely on the Variation Sought and files annual financial statements prepared in accordance with IFRS for a deferred financial year, the Filer must, at the same time (unless previously done pursuant to paragraph (j) immediately above):

  (i) restate, in accordance with IFRS, any interim financial statements for any Previous Interim Period that were originally prepared in accordance with pre-changeover Canadian GAAP and filed pursuant to this decision; and

  (ii) file a restated interim financial report prepared in accordance with IFRS for each Previous Interim Period, together with corresponding restated interim MD&A and certificates required by NI 52-109. For greater certainty, any restated interim financial report for a Previous Period must comply with applicable securities legislation (including Part 3 of NI 52-107 and the amendments to Part 4 of NI 51-102 that came into force on January 1, 2011) and any restated interim financial report for the first interim period in a deferred financial year must include the opening IFRS statement of financial position at the date of transition to IFRS.

"Cameron McInnis"
Chief Accountant, Chief Accountant's Office
Ontario Securities Commission

2.1.5 Investors Japanese Equity Fund et al.

Headnote

NP 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – approval of mutual fund mergers – approval required because mergers do not meet the criteria for pre-approval – differences in investment objectives – some mergers will not occur on a tax-deferred basis – securityholders of terminating funds provided with timely and adequate disclosure regarding the mergers.

Applicable Legislative Provisions

NI 81-102 Mutual Funds, ss. 5.5(1)(b), 5.6(1)(a), 5.6(1)(b), 5.7(1)(b).

May 3, 2013

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

AND

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

AND

IN THE MATTER OF
THE MERGERS OF INVESTORS JAPANESE EQUITY FUND
INVESTORS JAPANESE EQUITY CLASS
INVESTORS EUROPEAN DIVIDEND GROWTH FUND
INVESTORS SUMMA GLOBAL SRI FUND
INVESTORS SUMMA GLOBAL SRI CLASS
INVESTORS MERGERS & ACQUISITIONS FUND
INVESTORS MERGERS & ACQUISITIONS CLASS
IG MACKENZIE UNIVERSAL GLOBAL GROWTH CLASS
INVESTORS REAL RETURN BOND FUND
(the "Terminating Funds")

INTO

INVESTORS PAN ASIAN GROWTH FUND
INVESTORS PAN ASIAN GROWTH CLASS
INVESTORS EUROPEAN EQUITY FUND
INVESTORS GLOBAL FUND
INVESTORS GLOBAL CLASS
INVESTORS NORTH AMERICAN EQUITY FUND
INVESTORS NORTH AMERICAN EQUITY CLASS
IG MACKENZIE IVY FOREIGN EQUITY CLASS
INVESTORS CANADIAN BOND FUND
(the "Continuing Funds" and collectively with
the Terminating Funds referred to as the "Funds")

AND

IN THE MATTER OF

I.G. INVESTMENT MANAGEMENT, LTD.
(referred to as the "Investors Group" and
collectively with the Funds referred to the "Filers")

DECISION

Background

The securities regulatory authority or regulator in each of the Jurisdictions (the "Decision Maker") has received an application from the Filers for a decision under the securities legislation of the Jurisdictions (the "Legislation") for approval under paragraph 5.5(1)(b) of National Instrument 81-102 *Mutual Funds* ("NI 81-102") of the Mergers of the Terminating Funds into the applicable Continuing Funds (as defined below in paragraph number 6).

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

(a) The Manitoba Securities Commission is the principal regulator for this application;

(b) the Filers have provided notice that section 4.7(1) of Multi-Lateral Instrument 11-102 *Passport System* (MI 11-102) is intended to be relied upon in British Columbia, Alberta, Saskatchewan, Quebec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Yukon, Nunavut and the North West Territories; and

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

Interpretation

Defined terms contained in National Instrument 14-101 – *Definitions* and MI 11-102 have the same meaning if used in this decision, unless they are otherwise defined below:

- Investors Japanese Equity Fund, Investors Pan Asian Growth Fund, Investors European Dividend Growth Fund, Investors European Equity Fund, Investors Summa Global SRI Fund, Investors Global Fund, Investors Mergers & Acquisitions Fund, Investors North American Equity Fund, Investors Real Return Bond Fund and Investors Canadian Bond Fund are herein collectively referred to as the "Unit Trust Funds";

- Investors Japanese Equity Class, Investors Pan Asian Growth Class, Investors Summa Global SRI Class, Investors Global Class, Investors Mergers & Acquisitions Class, Investors North American Equity Class, IG Mackenzie Universal Global Growth Class and IG Mackenzie Ivy Foreign Equity Class are herein collectively referred to as the "Corporate Class Funds";

Representations

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

1. Investors Group is a corporation continued under the laws of Canada. It is the trustee and manager of the Unit Trust Funds and is the manager of the Corporate Class Funds. I.G. Investment Management, Ltd. is registered as a portfolio manager in Manitoba, Ontario, and Quebec and as an Investment Fund Manager in Manitoba. It is also registered as an advisor under the Commodity Futures Act in Manitoba. The head office of Investors Group is in Winnipeg, Manitoba and, accordingly, Manitoba is the principal regulator. Investors Group is not in default of any of the requirements of securities legislation of any of the provinces and territories in Canada.

2. Investors Group Corporate Class Inc. (the "Corporation") is the issuer of the Corporate Class Funds.

3. All of the Funds are open-end mutual funds established or continued under a Master Declaration of Trust under the laws of Manitoba (in the case of the Unit Trust Funds), or governed by the Canada Business Corporations Act (the "CBCA") (in the case of the Corporate Class Funds).

4. All of the Funds are reporting issuers under the Legislation in each Jurisdiction and are not on the list of defaulting reporting issuers maintained under the Legislation in each Jurisdiction, and are not in default of any of the requirements of the securities Legislation of any of the provinces and territories of Canada. The securities of the Funds are qualified for distribution in each of the Jurisdictions pursuant to their own separate simplified prospectuses and annual information forms for the Unit Trust Funds and Corporate Class Funds, respectively, each dated June 30, 2012, as may be amended (referred to collectively as the "Prospectuses").

5. Each Unit Trust Fund issues five series of units to retail purchasers. Each Corporate Class Fund issues four series of Shares to retail purchasers. A Fund Facts document as prescribed by Form 81-101F3 (the "Fund Facts") has been filed for all of the retail series of units and shares issued by the Unit Trust Funds and the Corporate Class Funds, respectively, together with their Prospectuses as described in paragraph number 4.

6. Investors Group proposes that each Terminating Fund be merged into a corresponding Continuing Fund (each a "Merger" and collectively the "Mergers") as follows:

Terminating Fund		Continuing Fund
Investors Japanese Equity Fund	*to merge into*	Investors Pan Asian Growth Fund
Investors Japanese Equity Class	*to merge into*	Investors Pan Asian Growth Class
Investors European Dividend Growth Fund	*to merge into*	Investors European Equity Fund
Investors Summa Global SRI Fund	*to merge into*	Investors Global Fund
Investors Summa Global SRI Class	*to merge into*	Investors Global Class
Investors Mergers & Acquisitions Fund	*to merge into*	Investors North American Equity Fund
Investors Mergers & Acquisitions Class	*to merge into*	Investors North American Equity Class
IG Mackenzie Universal Global Growth Class	*to merge into*	IG Mackenzie Ivy Foreign Equity Class
Investors Real Return Bond Fund	*to merge into*	Investors Canadian Bond Fund

7. Meetings of the securityholders of the Terminating Funds are being convened on or about June 10, 2013, to approve the Mergers. A Meeting of the securityholders of Investors Pan Asian Growth Class, Investors Global Class, Investors North American Equity Class and IG Mackenzie Ivy Foreign Equity Class (the "Continuing Corporate Class Funds") is also being convened as required by the provisions of the CBCA to approve changes to the Corporation's articles of incorporation in order to facilitate their Mergers with their corresponding Terminating Funds. A notice of meeting, a management information circular and a proxy in connection with the meetings of securityholders of the Terminating Funds and the Continuing Corporate Class Funds (collectively, the "Meeting Materials"), will be mailed to securityholders of the Terminating Funds and the Continuing Corporate Class Funds, commencing on or about May 10, 2013, and will be filed via SEDAR.

8. Investors Group has determined that the Mergers will not be a material change to the Continuing Funds because they will not entail a change in the business, operations or affairs of the Continuing Funds that would be considered important by a reasonable investor in determining whether to purchase or continue to hold securities of the Continuing Funds. The Meeting of the Continuing Corporate Class Funds is to approve an amendment to the articles of incorporation of the Corporation to facilitate their Mergers pursuant to the CBCA and is not being convened because it is a material change for those Continuing Funds.

9. The tax implications of the Mergers, as well as the material differences between each Terminating Fund and the corresponding Continuing Fund, will be described in the Meeting Materials so securityholders of the Terminating Funds will be fully informed when considering whether to approve the Merger of their Fund at the Meeting of their Fund. More specifically, the Merger of the Investors European Dividend Growth Fund into the Investors European Equity Fund will occur on a taxable basis, because if that transaction were to occur on a tax-deferred basis, any unused tax losses of the Investors European Equity Fund would expire immediately after completion of the Proposed Merger. Had this Proposed Merger occurred on April 12, 2013 on a tax-deferred basis, the Investors European Equity Fund would have had tax losses that would expire unused after completion of the Proposed Merger of approximately $291 million (being almost 41% of its net asset size). By having this Proposed Merger occur on a taxable basis, however, the tax losses of the Investors European Equity Fund are preserved. This means there is a lower likelihood that the Investors European Equity Fund may make a capital gains or income distribution in the future. This advantage will benefit the securityholders of the Investors European Dividend Growth Fund who will become securityholders of the Investors European Equity Fund upon completion of the Merger.

10. To summarize, with respect to this Proposed Merger and the other Proposed Mergers, implicit in the approval by securityholders of the Mergers is the acceptance by the securityholders of the Terminating Funds of the proposed tax treatment and their adoption of the investment objective, strategy and fee structure of each corresponding Continuing Fund.

11. Amendments to the Prospectuses and Fund Facts of each retail series of each Terminating Fund, and a material change report, have been (or will be) filed on SEDAR with respect to the Mergers as required by the Legislation of the Jurisdictions.

12. The Terminating Funds will merge into the Continuing Funds on or about the close of business on June 14, 2013, and the Continuing Funds will continue as publicly offered open-end mutual funds.

13. The Terminating Funds will be wound up as soon as reasonably possible following the Mergers.

14. No sales charges will be payable in connection with the acquisition by the Continuing Funds of the investment portfolios of the Terminating Funds.

15. Securityholders of the Terminating Funds will continue to have the right to redeem securities of the Terminating Funds for cash at any time up to the close of business on the business day immediately before the effective date of the Mergers.

16. Other than circumstances in which the securities regulatory authority of a Jurisdiction has expressly exempted the Funds, the Funds follow the standard investment restrictions and practices established under the Legislation of the Jurisdictions.

17. The net asset values of each series of the Funds are calculated on a daily basis on each day that Investors Group is open for business.

18. Although the Continuing Funds and the corresponding Terminating Funds have somewhat similar investment mandates, their fundamental investment objectives and /or strategies differ.

19. Some of the portfolio securities and other assets of the Terminating Funds may in some instances be unacceptable to the portfolio advisor of the Continuing Funds for reasons related to diversification, investment selection and asset allocation, and may therefore have to be liquidated or rationalized to a greater or lesser extent prior to some or all Mergers.

20. Investors Group will pay for all costs associated with the Meetings, including legal, proxy solicitation, printing, and mailing expenses, as well as any brokerage transaction fees associated with any Merger related trades referred to in paragraph 19, and regulatory fees.

21. The fee structures of the Terminating Funds is generally the same as the fee structures of the Continuing Funds, and in some instances the annual management fee and administration fees of the Continuing Funds are lower than that of the Terminating Funds.

22. Investors Group will send the most recent Fund Facts of the appropriate series of the Continuing Funds to securityholders of the Terminating Funds as permitted under paragraph 5.6(1)(f)(ii) of NI 81-102. In addition, securityholders of the Terminating Funds and the Continuing Corporate Class Funds will be sent a management information circular fully describing the Mergers, which prominently discloses that the most recent Prospectuses, audited annual and un-audited interim financial statements of the Continuing Funds (if available) can be obtained by accessing the same at the Investors Group website or the SEDAR website, or requesting the same from Investors Group by toll-free number, or by contacting their servicing advisor at Investors Group or an affiliate of Investors Group ("Investors Group Consultant"), all as described in the Management Information Circular.

23. Approval of the Mergers is required because one or more of the Mergers does not satisfy all of the criteria for pre-approved reorganizations and transfers set out in section 5.6 of NI 81-102 in the following ways:

    (a) contrary to section 5.6(1)(a)(ii), a reasonable person may not consider the Continuing Funds as having substantially similar fundamental investment objectives as the Terminating Funds; and

    (b) contrary to section 5.6(1)(b), the Merger of Investors European Dividend Growth Fund into Investors European Equity Fund will not occur on a tax-deferred basis as a "qualifying exchange" within the meaning of section 132.2 of the Federal *Income Tax Act* ("ITA") or a tax-deferred transaction under sub-section 85(1), 85.1(1), 86(1) or 87(1) of the ITA.

24. Except as noted above, the Mergers will otherwise comply with all of the other criteria for pre-approved reorganizations and transfers set out in section 5.6 of NI 81-102.

25. The Mergers will increase operational efficiency by elimination of the duplication in time, effort and costs associated with the audit, board review and other compliance requirements arising from having multiple mandates.

26. It is anticipated that securityholders of the Terminating Funds will benefit from less volatile and improved performance of their investments after the Mergers due to the broader investment mandate and larger asset size of the Continuing

Funds which allow the portfolio advisors to better manage their assets through greater diversification, investment selection and asset allocation.

27. I nvestors Group has referred the Mergers to the Independent Review Committee of the Funds (the "IRC") for its review. The IRC has been established as required by NI 81-107 – *Fund Governance* ("NI 81-107") and consists of individuals who are not in any way related to the Investors Group or its affiliates. The IRC reviews and makes recommendations on conflicts of interest matters for the purposes described in NI 81-107 including fund mergers (if necessary). After due consideration, the IRC has concluded that the merger achieves a fair and reasonable result for each of the Funds.

Decision

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

The Decision of the Decision Makers under the Legislation is that the Exemption sought is granted, provided that:

1. (a) the management information circular sent to securityholders in connection with the Mergers provides sufficient information about the Mergers to permit securityholders to make an informed decision about the Mergers;

(b) the management information circular sent to securityholders in connection with the Mergers prominently discloses that securityholders can obtain the most recent prospectuses, interim and annual financial statements (if applicable) of the Continuing Funds by accessing the SEDAR website at www.sedar.com. by accessing the Investors Group website, by calling Investors Group's toll-free telephone number, or by contacting an Investors Group Consultant;

(c) the Continuing Funds and the Terminating Funds with respect to the Mergers have an unqualified audit report in respect of their last completed financial period; and

(d) the Meeting Materials sent to securityholders of the Terminating Funds in respect of the Mergers include the applicable Fund Facts of the Continuing Funds.

"R.B. Bouchard"
Director, Corporate Finance
The Manitoba Securities Commission

2.1.6 Primaris Retail Real Estate Investment Trust – s. 1(10)

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – application for an order that the issuer is not a reporting issuer.

Ontario Statutes

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

May 10, 2013

Blake, Cassels & Graydon LLP
199 Bay Street
Suite 4000, Commerce Court West
Toronto, ON M5L 1A9

Attn: Adrian Cochrane

Dear Sirs/Mesdames:

Re: Primaris Retail Real Estate Investment Trust (the Applicant) – application for a decision under the securities legislation of Ontario, Alberta, Saskatchewan, Manitoba, Québec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Yukon, Northwest Territories and Nunavut (the Jurisdictions) that the Applicant is not a reporting issuer

The Applicant has applied to the local securities regulatory authority or regulator (the Decision Maker) in each of the Jurisdictions for a decision under the securities legislation (the Legislation) of the Jurisdictions that the Applicant is not a reporting issuer.

In this decision, "securityholder" means, for a security, the beneficial owner of the security.

The Applicant has represented to the Decision Makers that:

(a) the outstanding securities of the Applicant, including debt securities, are beneficially owned, directly or indirectly, by fewer than 15 securityholders in each of the jurisdictions of Canada and fewer than 51 securityholders in total world-wide;

(b) no securities of the Applicant, including debt securities, are traded in Canada or another country on a marketplace as defined in National Instrument 21-101 Marketplace Operation or any other facility for bringing together buyers and sellers of securities where trading data is publicly reported;

(c) the Applicant is applying for a decision that it is not a reporting issuer in all of the jurisdictions of Canada in which it is currently a reporting issuer; and

(d) the Applicant is not in default of any of its obligations under the Legislation as a reporting issuer.

Each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the decision has been met and orders that the Applicant is not a reporting issuer.

"Shannon O'Hearn"
Manager, Corporate Finance
Ontario Securities Commission

2.1.7 Griffiths Energy International Inc.

Headnote

National Policy 11-203 – Filer granted permission to make statements in a preliminary prospectus to the effect that it will apply to list its common shares on the premium listing segment of the official list of the Financial Services Authority and will apply for such common shares to be admitted to trading on the London Stock Exchange's main market for listed securities.

Applicable Legislative Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., s. 38(3).

Citation: Griffiths Energy International Inc., Re, 2013 ABASC 98

March 7, 2013

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ALBERTA, SASKATCHEWAN, ONTARIO,
NEW BRUNSWICK, NOVA SCOTIA,
PRINCE EDWARD ISLAND AND NEWFOUNDLAND
AND LABRADOR (THE JURISDICTIONS)

AND

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

AND

IN THE MATTER OF
GRIFFITHS ENERGY INTERNATIONAL INC.
(THE FILER)

DECISION

Background

The securities regulatory authority or regulator in each of the Jurisdictions (the **Decision Makers**) have received an application from the Filer(s) for a decision under the securities legislation of the Jurisdictions (the **Legislation**):

(a) granting written permission to the Filer to include in the Canadian Preliminary Prospectus (defined below) statements to the effect that the Filer will apply to list the Common Shares (defined below) on the premium listing segment of the official list of the FSA (defined below) and will apply for such Common Shares to be admitted to trading on the LSE's (defined below) main market for listed securities; and

(b) that the application and this decision be held in confidence by the Decision Makers (the **Confidentiality Relief**).

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

(a) the Alberta Securities Commission is the principal regulator for this application; and

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

Interpretation

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

Representations

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

Background

1. The Filer is a corporation incorporated under the *Canada Business Corporations Act*.

2. The head and registered office of the Filer is located in Calgary, Alberta.

3. The Filer is currently not a reporting issuer or the equivalent under the securities legislation of any province or territory of Canada and is not, to its knowledge, in default of any requirements under the securities legislation of any province or territory of Canada.

4. None of the securities of the Filer are listed or posted for trading on any exchange or quotation and trade reporting system.

5. The Filer is presently engaged in the exploration and development of crude oil and natural gas interests located in Chad, Africa.

6. As at December 31, 2012, the Filer had approximately 112.8 million common shares (the *Common Shares*) outstanding, which outstanding Common Shares were issued in a series of private placements and upon exercise of previously issued convertible securities (collectively, the *Private Placement Securities*).

7. The Private Placement Securities held by residents of a province of Canada are subject to an indefinite hold period under applicable securities laws.

Proposed Global Offer

8. The Filer intends to (i) undertake an offering in the United Kingdom (**UK**) to persons who are "investment professionals", in member states of the European Economic Area to persons who are "qualified investors", in other European countries outside the United States in reliance on Regulation S, and within the United States to "qualified institutional buyers" in reliance on Rule 144A under the United States *Securities Act of 1933* (as amended) (the Global **Offer**), and (ii) make application for the admission of the Common Shares for listing on the premium listing segment of the official list of the Financial Services Authority (the FSA).

9. The Filer believes that admission to trading on the LSE and access to the capital markets in the UK and Continental Europe is in the best interests of the Filer given the anticipated interest of investors in those markets in investment opportunities in oil and gas issuers focused on the development of oil and gas interests in Africa.

10. The Filer will prepare a prospectus (the **UK Prospectus**) in accordance with the Prospectus Rules and Listing Rules of the FSA made under the UK *Financial Services and Markets Act 2000* (as amended) (the **FSMA**).

11. The Filer will offer Common Shares to investors in the Global Offer.

12. The UK Prospectus will be approved by the FSA in its capacity as the competent authority under the FSMA (the UKLA). Prior to the approval of the UK Prospectus, the Filer will distribute a pathfinder prospectus, which will be a substantially final draft of the UK Prospectus and which will have been reviewed by the UKLA as described in paragraph 19 below and the UKLA will have confirmed that it has no further substantive comments on the draft (the **Pathfinder Prospectus**). The Pathfinder Prospectus will be distributed outside Canada in connection with the Global Offer.

13. The Filer intends to make an application to the UKLA for all of the Common Shares issued and to be issued under the Global Offer to be admitted to the premium listing segment of the official list of the FSA and to the LSE for such Common Shares to be admitted to trading on the LSE's main market for listed securities (the **Admission**).

14. In connection with the Global Offer, as is customary in connection with an application for admission to trading on the LSE, the Filer will issue an "Intention to Float" press release (ITF Press Release) indicating the Filer's intention to seek Admission.

15. The ITF Press Release will be disseminated prior to the Pathfinder Prospectus being distributed. Filing of the Preliminary Canadian Prospectus will occur concurrently with dissemination of the ITF Press Release.

16. Following dissemination and distribution of the ITF Press Release, and as is customary in transactions of this nature, there will be at least a two week "cooling off" period prior to the Pathfinder Prospectus being distributed.

The Canadian IPO

17. As described in paragraph 9 above, the Filer believes the principal market for its Common Shares will be investors in the UK and in Continental Europe. However, the Filer intends to also file a preliminary long form prospectus in each of the provinces of Canada except Québec (the **Preliminary Canadian Prospectus**) for purposes of completing an initial public offering in Canada (the **Canadian IPO**) concurrent with the Global Offer, as the Filer also wishes to raise additional capital from investors in Canada and to become a reporting issuer so as to allow the Private Placement Securities to become freely tradeable.

18. The Filer will not be interlisted on any Canadian stock exchange upon completion of the Canadian IPO.

Timeline

19. On December 10, 2012, January 9, 2013, January 24, 2013 and February 26, 2013, the Filer filed the first, second and third drafts, respectively, of the Pathfinder Prospectus with the UKLA on a confidential basis for review and comments. On the current timetable, the Filer anticipates filing further revised drafts of the Pathfinder Prospectus on or around March 7, 2013, March 18, 2013 and March 26, 2013, in each case on a confidential basis for further review and comments by the UKLA.

20. The following is the current anticipated sequence of certain filings and other events to occur in 2013 relating to the Global Offer, the Admission and the Canadian IPO:

    (a) On or about the week of March 6, 2013, the ITF Press Release will be issued by the Filer and the Preliminary Canadian Prospectus will be filed with the securities commission or similar regulatory authority in each of the provinces of Canada except Québec. It is anticipated that the initial comment letter will be issued 10 business days following date of the receipt for the Preliminary Canadian Prospectus.

    (b) On or about the week of April 8, 2013, the Pathfinder Prospectus will be distributed by the Filer.

    (c) Concurrent with (b) above, marketing will commence through a roadshow marketing process.

    (d) On or about the week of April 22, 2013, the final long form prospectus (**Final Canadian Prospectus**) will be filed in Canada and the final UK Prospectus will be dated and submitted for approval to the FSA, with closing of the Global Offer, the Admission and the Canadian IPO following shortly thereafter and trading to commence on the LSE on or about April 25, 2013.

21. In order to meet the above timeline it is necessary to file the Preliminary Canadian Prospectus, concurrently with the dissemination of the ITF Press Release, and approximately four weeks prior to the Pathfinder Prospectus being distributed as contemplated by paragraph 20(b) above.

Listing Representations

22. The UKLA will only approve the UK Prospectus on the day it is dated. At this time, the formal application for a listing is submitted to the UKLA and a formal application for admission to trading is submitted to the LSE. The admission to listing is officially granted by the UKLA in conjunction with admission to trading being granted by the LSE.

23. As a result of the foregoing timing, formal application will not have been made nor will the UKLA have granted approval (conditional or otherwise) to the listing of the Common Shares at the time of publishing the ITF News Release, the Preliminary Canadian Prospectus, the news release relating to the Preliminary Canadian Prospectus or the Pathfinder Prospectus. Formal application will have been made but the UKLA will not have granted approval (conditional or otherwise) to the listing of the Common Shares at the time of publishing the UK Prospectus, the Final Canadian Prospectus or the news releases relating to the foregoing documents (collectively with the ITF News Release and the news release relating to the Preliminary Canadian Prospectus, the **News Releases**).

24. Despite the foregoing, given that the Filer will be in the process of making (or will have made, as applicable) application for Admission, the Filer wishes to refer in each of the Pathfinder Prospectus, the UK Prospectus, the Preliminary Canadian Prospectus, the Final Canadian Prospectus and the News Releases, as applicable, to the fact that the Filer intends to make and/or has made application for Admission, as applicable, as the Filer believes that this information would be relevant to a potential purchaser of Common Shares.

25. It is customary in the context of the application process for Admission that the Filer disclose in the ITF News Release, the Pathfinder Prospectus and the UK Prospectus one or more representations identical or substantially similar to the following, as applicable (together with the representations in paragraph 24 above, the **Listing Representations**):

> "[Griffiths Energy International Inc. intends to apply] [OR] [Application has been made] to the FSA in its capacity as competent authority under the FSMA for all of the Common Shares to be admitted to the premium listing segment of the official list of the FSA and to the LSE for such Common Shares to be admitted to trading on the LSE's main market for listed securities. Admission to trading on the LSE's main market for listed securities constitutes admission to trading on a regulated market. Conditional dealings in the Common Shares are expected to commence on the LSE on ●, 2013. It is expected that Admission will become effective, and that unconditional dealings in the Common Shares will commence, on ●, 2013."

26. Except as described in paragraphs 24 and 25 above, the Filer will not make any other written or oral representations that the Common Shares will be listed on any other exchange or quoted on a quotation and trade reporting system.

27. The Filer is of the understanding that neither the UKLA or LSE will provide it with written confirmation indicating that it does not object to the Listing Representations or that it consents to the Listing Representations, other than its eventual formal approval of the UK Prospectus.

28. The Common Shares distributed in the UK at the time of the LSE listing will be distributed by the Filer in reliance on the prospectus exemption in Part 3 of ASC Rule 72-501 – *Distributions to Purchasers Outside of Alberta*. As such, absent the ASC, as principal regulator, granting an exemption for the Listing Representations in the Pathfinder Prospectus, the UK Prospectus and the News Releases, the Filer would be in violation of section 92(3) of the Securities Act (Alberta).

29. Absent the requested relief sought from all of the Decision Makers, the Listing Representations in the Preliminary Canadian Prospectus, the Final Canadian Prospectus and the News Releases would be in violation of section 92(3) of the *Securities Act* (Alberta), and substantially equivalent provisions in the other Jurisdictions

Decision

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

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

2. The Confidentiality Relief is granted until the earliest of:

   (a) The date on which the Filer issues and files a news release in Canada announcing the Global Offer and/or the Canadian IPO;

   (b) The date on which the Filer files the Canadian Preliminary Prospectus;

   (c) The date that the Filer advises the Decision Makers that there is no longer a need for the application and this decision to remain confidential; and

   (d) 90 days from the date of this decision.

"David C. Linder", QC
Executive Director
Alberta Securities Commission

2.1.8 Thales

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – Application for relief from the prospectus and dealer registration requirements for certain trades made in connection with an employee share offering by a French issuer – The offering involves the use of collective employee shareholding vehicles, each a fonds communs de placement d'enterprise (FCPE) – The issuer is unable to rely on the employee prospectus exemption in section 2.24 of National Instrument 45-106 Prospectus and Registration Exemptions and the manager is unable to rely on the plan administrator exemption in section 8.16 of National Instrument 31-103 Registration Requirements and Exemptions as the shares are not being offered to Canadian employees directly by the issuer but through FCPEs – Canadian employees will receive disclosure documents – The FCPEs are subject to the supervision of the French Autorité des marchés financiers – Relief granted, subject to conditions.

Applicable Legislative Provisions

Securities Act (Ontario), ss. 25, 53, 74.
National Instrument 31-103 Registration Requirements and Exemptions, s. 8.16.
National Instrument 45-102 Resale of Securities, s. 2.14.
National Instrument 45-106 Prospectus and Registration Exemptions,s. 2.24.

May 10, 2013

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
THALES
(the "Filer")

DECISION

Background

The principal regulator in the Jurisdiction has received an application from the Filer for a decision under the securities legislation of the Jurisdiction of the principal regulator (the "**Legislation**") for:

1. an exemption from the prospectus requirements of the Legislation (the "**Prospectus Relief**") so that such requirements do not apply to

   (a) trades in units (the "**Units**") of

      (i) an FCPE named "World Classic Relais 2013" (the "**Temporary Classic FCPE**") which is a *fonds commun de placement d'entreprise* or "FCPE," a form of collective shareholding vehicle of a type commonly used in France for the conservation of shares held by employee-investors;

      (ii) the "World Classic" compartment (the "**Principal Classic Compartment**") of an FCPE named Actionnariat Salarié Thales, which will merge with the Temporary Classic FCPE following the Employee Share Offering (as defined below), such transaction being referred to as the "**Merger**", as further described below (the term "**Classic Compartmen**t" used herein means, prior to the Merger, the Temporary Classic FCPE, and following the Merger, the **Principal Classic Compartment**); and

(iii) the "Action Protect 2013" compartment (the "**Protected Compartment**" and, together with the Classic Compartment, the "**Compartments**" and each is a "**Compartment**") of the FCPE named "Actionnariat Salarié Thales";

made pursuant to the Employee Share Offering to or with Qualifying Employees (as defined below) resident in the Jurisdiction and in the Provinces of British Columbia, Québec and Nova Scotia (collectively, the "**Canadian Employees**," and the Canadian Employees who subscribe for Units, the "**Canadian Participants**");

(b) trades of ordinary shares of the Filer (the "**Shares**") by the Temporary Classic FCPE, the Principal Classic Compartment and/or the Protected Compartment to or with Canadian Participants upon the redemption of Units as requested by Canadian Participants;

(c) trades in Units of the Classic Compartment to holders of Units of the Protected Compartment upon the transfer of the Canadian Participants' assets in the Protected Compartment to the Classic Compartment at the end of the Lock-Up Period (defined below) in respect of Canadian Participants that do not request the redemption of their Protected Compartment Units at that time;

2. an exemption from the dealer registration requirements of the Legislation (the "**Registration Relief**") so that such requirements do not apply to the Thales Group (as defined below and which, for clarity, includes the Filer and the Canadian Affiliates), the Temporary Classic FCPE, the Principal Classic Compartment, the Protected Compartment and Amundi (the "**Management Company**") in respect of:

(a) trades in Units made pursuant to the Employee Share Offering to or with Canadian Employees; and

(b) trades in Shares by the Temporary Classic FCPE, the Principal Classic Compartment and/or the Protected Compartment to or with Canadian Participants upon the redemption of Units as requested by Canadian Participants.

(the Prospectus Relief and the Registration Relief, collectively, the "**Offering 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 section 4.7(1) of Multilateral Instrument 11-102 *Passport System* ("**MI 11-102**") is intended to be relied upon in British Columbia, Québec and Nova Scotia.

Interpretation

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

Representations

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

1. The Filer is a corporation formed under the laws of France. It is not, and has no current intention of becoming, a reporting issuer under the Legislation or the securities legislation of any jurisdiction of Canada. The head office of the Filer is in France and the Shares are listed on Euronext Paris. The Filer is not in default under the Legislation or the securities legislation of any jurisdiction of Canada.

2. The Filer carries on business in Canada through certain affiliated companies (collectively, the "**Canadian Affiliates**" and, together with the Filer and other affiliates of the Filer, the "**Thales Group**"), including Thales Canada Inc. Each of the Canadian Affiliates is a direct or indirect controlled subsidiary of the Filer and is not, and has no current intention of becoming, a reporting issuer under the Legislation or the securities legislation of any jurisdiction of Canada. The principal office of the Thales Group in Canada is located in Ontario and the greatest number of employees of Canadian Affiliates are employed in Ontario. None of the Canadian Affiliates is in default of the Legislation or the securities legislation of any other jurisdiction in Canada.

3. As of the date hereof and after giving effect to the Employee Share Offering, Canadian residents do not and will not beneficially own (which term, for the purposes of this paragraph, is deemed to include all Shares held by the Classic Compartment and Protected Compartment on behalf of Canadian Participants) more than 10% of the Shares and do

not and will not represent in number more than 10% of the total number of holders of the Shares as shown on the books of the Filer.

4. The Filer has established a global employee share offering for employees of the Thales Group (the "**Employee Share Offering**"). The Employee Share Offering is comprised of two subscription options: (i) an offering of Shares to be subscribed through the Classic Compartment (the "**Classic Plan**") and (ii) an offering of Shares to be subscribed through the Protected Compartment (the "**Protected Plan**").

5. Only persons who are employees of a member of the Thales Group during the subscription period for the Employee Share Offering and who meet minimum employment criteria (the "**Qualifying Employees**") will be invited to participate in the Employee Share Offering.

6. The Temporary Classic FCPE was established for the purpose of implementing this Employee Share Offering. The Principal Classic Compartment and the Protected Compartment were established for the purpose of implementing employee share offerings of the Filer. There is no current intention for the Compartments to become reporting issuers under the Legislation or the securities legislation of any jurisdiction of Canada.

7. As set forth above, an FCPE (known in France as a *fonds commun de placement d'entreprise*) is a shareholding vehicle of a type commonly used in France for the conservation and custodianship of shares held by employee investors. The Principal Classic Compartment and the Temporary Classic FCPE have been registered with the French Autorité des marchés financiers (the "**French AMF**"). Only Qualifying Employees will be allowed to hold Units issued pursuant to the Employee Share Offering.

8. All Units acquired in the Employee Share Offering by Canadian Participants will be subject to a hold period of approximately five years (the "**Lock-Up Period**"), subject to certain exceptions prescribed by French law (such as a release on death or termination of employment).

9. Under the Classic Plan:

   (a) The subscription price for Shares will be the Canadian dollar equivalent of the average of the opening price of the Shares (expressed in euros) on the 20 trading days preceding the date of the fixing of the subscription price by the President of the Filer (the "**Reference Price**"), less a 20% discount.

   (b) For each 10 Shares that a Canadian Participant subscribes for under the Classic Plan, the employer of such Canadian Participant will make a matching contribution to the Classic Plan, for the benefit of, and at no cost to, the Canadian Participant, in an amount equal to the subscription price for one additional Share under the Classic Plan, up to a maximum of five matching contribution Shares per Canadian Participant (the "**Employer Contribution**").

   (c) The Temporary Classic FCPE will apply the cash received from each Canadian Participant's subscription and the corresponding Employer Contributions to subscribe for Shares from the Filer. The Shares subscribed for will be held in the Temporary Classic FCPE and the Canadian Participant will receive one Unit in the Temporary Classic FCPE for each Share subscribed for, including Shares purchased with the Employer Contribution.

   (d) After completion of the Employee Share Offering, the Temporary Classic FCPE will be merged with the Principal Classic Compartment (subject to the approval of the French AMF and the supervisory board of the FCPEs). Units of the Temporary Classic FCPE held by Canadian Participants will be replaced with Units of the Principal Classic Compartment on a pro rata basis and the Shares subscribed for under the Classic Plan will be held in the Principal Classic Compartment (the "**Merger**").

   (e) The Units will be subject to a hold period of approximately five years (the "**Lock-Up Period**"), subject to certain exceptions prescribed by French law (such as a release on death or termination of employment).

   (f) Any dividends paid on the Shares held in the Classic Compartment will be contributed to the Classic Compartment and used to purchase additional Shares. The net asset value of the Units will be increased to reflect this reinvestment and no new Units will be issued.

   (g) At the end of the Lock-Up Period, a Canadian Participant may (i) request the redemption of his or her Units in the Classic Compartment in consideration for the underlying Shares or a cash payment equal to the then market value of the Shares held by the Classic Compartment, or (ii) continue to hold his or her Units in the Classic Compartment and request the redemption of those Units at a later date in consideration for the underlying Shares or a cash payment equal to the then market value of the Shares.

(h) In the event of an early unwind resulting from the Canadian Participant exercising one of the exceptions to the Lock-Up Period prescribed by French law and meeting the applicable criteria, a Canadian Participant may request the redemption of Units in the Classic Compartment in consideration for a cash payment equal to the market value of such Shares.

10. Under the Protected Plan:

(a) The subscription price for Shares under the Protected Plan will be the Reference Price, less a discount of 15% (the "**Purchase Price**").

(b) The Protected Compartment will apply the cash received from each Canadian Participants' subscription (expressed in euros, the "**Employee Contribution**") to subscribe for Shares from the Filer (there will not be a matching contribution from the employer as in the Classic Plan).

(c) The Canadian Participant will receive one Unit in the Protected Compartment for each Share subscribed for with the Employee Contribution, the value of which will represent the Employee Contribution and the Appreciation Amount (as described below) in respect of a Share.

(d) Units will be subject to the Lock-Up Period, subject to certain exceptions prescribed by French law (such as a release on death or termination of employment).

(e) The Protected Compartment will enter into a swap arrangement ("**Swap Agreement**") with a bank (Credit Agricole Corporate and Investment Bank, or the "**Bank**"), which effectively provides that:

(i) during the Lock-Up Period, the Protected Compartment will pay to the Bank the net amount of any dividends received by the Protected Compartment;

(ii) at the end of the Lock-Up Period each Canadian Participant will be entitled to a guaranteed return equal to the sum of

(1) 100% of the value of the Canadian Participant's Employee Contribution, plus:

(2) an amount equal to a multiple which shall be 1.27 times the increase, if any, in the average price of the Shares purchased with the Canadian Participant's Employee Contribution compared to the Reference Price (the "**Appreciation Amount**").

(iii) If, at the end of the Lock-Up Period, the market value of the Shares in the Protected Compartment is less than 100% of the Employee Contributions, the Bank is obliged to contribute to the Protected Compartment to make up any shortfall. The Swap Agreement will terminate after the final swap payments are made.

(f) At the end of the Lock-Up Period a Canadian Participant may elect to redeem his or her Protected Compartment Units in consideration for cash or Shares with a value equivalent to the Canadian Participant's Employee Contribution and the Canadian Participant's portion of the Appreciation Amount, if any.

(g) If a Canadian Participant chooses not to redeem his or her Units in the Protected Compartment at the end of the Lock-Up Period, his or her investment in the Protected Plan (represented by the Employee Contribution and the Appreciation Amount) will be transferred to the Classic Compartment (subject to the approval of the French AMF). New Units of the Classic Compartment will be issued to the applicable Canadian Participants in recognition of such assets. Canadian Participants will be entitled to request the redemption of these Classic Compartment Units whenever they wish, in consideration for the underlying Shares or a cash payment equal to the then market value of such Shares. However, following a transfer to the Classic Compartment, the Canadian Participant's Employee Contribution will no longer be guaranteed by the Swap Agreement.

(h) In the event of an early unwind resulting from a Canadian Participant exercising one of the exceptions to the Lock-Up Period prescribed by French law and meeting the applicable criteria, the Canadian Participant may request the redemption of Units in the Protected Compartment for cash in an amount equal to the value of the Employee Contribution and an amount equal to 1.27 times the increase, if any, in the average price of the Shares purchased with the Canadian Participant's Employee Contribution at the time of the early unwind compared to the Reference Price.

(i) To respond to the fact that, at the time of the initial investment decision relating to participation in the Protected Plan, Canadian Participants will be unable to quantify their potential income tax liability resulting

from such participation, the Filer or the Canadian Affiliates will indemnify each Canadian Participant in the Protected Plan for the following costs: all tax costs to the Canadian Participants associated with the payment of dividends in excess of a specified amount of euros per calendar year per Share during the Lock-Up Period, such that, in all cases, a Canadian Participant will, at the time of the original investment decision, be able to determine his or her maximum tax liability in connection with dividends received by the Protected Compartment on his or her behalf under the Protected Plan.

(j) The Management Company is permitted to cancel the Swap Agreement (which will have the effect of cancelling the guarantee) in certain strictly defined conditions where it is determined to be in the best interests of the holders of Units under the Protected Plan. In the event that the Management Company cancelled the Swap Agreement and such actions were determined not to be in the best interests of the holders of the Units of the Protected Plan, then such holders would have a right of action under French law against the Management Company. Under no circumstances will a Canadian Participant in the Protected Plan be responsible to contribute an amount greater than his or her Employee Contribution.

11. An FCPE is a limited liability entity under French law. The Classic Compartment's portfolio will consist almost entirely of Shares and may, from time to time, also include cash in respect of dividends paid on the Shares which will be reinvested in Shares. The Protected Compartment will also include Shares and cash, as well as rights and associated obligations under the Swap Agreement. Each portfolio may also include, from time to time, cash or cash equivalents pending investments in the Shares and for the purposes of Unit redemptions.

12. The Management Company is a portfolio management company governed by the laws of France. The Management Company is registered with the French AMF as an investment manager and complies with the rules of the French AMF. To the best of the Filer's knowledge, the Management Company is not, and has no current intention of becoming, a reporting issuer under the Legislation or the securities legislation of any jurisdiction of Canada, and to the best of the Filer's knowledge the Management Company is not in default under the Legislation or the securities legislation of any jurisdiction of Canada.

13. The Management Company's portfolio management activities in connection with the Employee Share Offering and the Compartments are limited to purchasing Shares from the Filer, selling such Shares as necessary in order to fund redemption requests, investing available cash in cash equivalents and such activities as may be necessary to give effect to the Swap Agreement.

14. The Management Company is also responsible for preparing accounting documents and publishing periodic informational documents as provided by the rules of each Compartment. The Management Company's activities do not affect the underlying value of the Shares.

15. Shares purchased pursuant to the Employee Share Offering will be deposited in each Compartment through CACEIS Bank France (the "**Depositary**"), a large French commercial bank subject to French banking legislation. Under French law, the Depositary must be selected by the Management Company from among a limited number of companies identified on a list maintained by the French Minister of the Economy, Finance and Industry, and its appointment must be approved by the French AMF. The Depositary carries out orders to purchase, trade and sell securities in the portfolio and takes all necessary action to allow each Compartment to exercise the rights relating to the securities held in its portfolio.

16. The Unit value of each Compartment will be calculated and reported periodically to the French AMF.

17. All management charges relating to a Compartment and all costs in respect of the sale of the underlying Shares on the redemption of Units will be paid by the relevant Compartment's assets or by the Filer, as provided in the applicable Compartment's regulations.

18. Participation in the Employee Share Offering is voluntary, and Canadian Employees will not be induced to participate in the Employee Share Offering by expectation of employment or continued employment.

19. The total amount invested by a Canadian Participant in the Employee Share Offering cannot exceed 25% of his or her estimated gross annual compensation for 2013. The Employer Contribution will not be factored into the maximum amount that a Canadian Employee may contribute.

20. None of the Filer, the Management Company, the Canadian Affiliates or any of their employees, agents or representatives will provide investment advice to the Canadian Employees with respect to an investment in the Shares or the Units.

21. The Shares are not currently listed for trading on any stock exchange in Canada and the Filer has no intention to have the Shares so listed. As there is no market for the Shares in Canada, and none is expected to develop, any first trades of Shares by Canadian Participants will be effected through the facilities of, and in accordance with the rules and regulations of, a foreign stock exchange outside of Canada.

22. Canadian Employees will receive an information package in the English or French language, according to their preference, which will include a summary of the terms of the Employee Share Offering, a tax notice containing a description of Canadian income tax consequences of subscribing to and holding Units and requesting the redemption of Units before or at the end of the Lock-Up Period.

23. Canadian Employees will have access to or may request a copy of the Filer's French *Document de Référence* filed with the French AMF in respect of the Shares and a copy of the relevant Compartment's rules (which are analogous to company by-laws). The Canadian Employees will also have access to the continuous disclosure materials relating to the Filer that are furnished to holders of Shares.

24. Canadian Participants will receive an initial statement indicating the number and value of the Units they hold under each plan, together with an updated statement at least once per year.

25. There are approximately 1253 Canadian Employees resident in the provinces of British Columbia, Ontario, Québec and Nova Scotia (with the greatest number, approximately 1006, resident in Ontario), who represent, in the aggregate, approximately 2% of the number of employees in the Thales Group worldwide.

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 Offering Relief is granted provided that the prospectus requirements of the Legislation will apply to the first trade in any Units or Shares acquired by Canadian Participants pursuant to this decision unless the following conditions are met:

(a) the issuer of the security

  (i) was not a reporting issuer in any jurisdiction of Canada at the distribution date, or

  (ii) is not a reporting issuer in any jurisdiction of Canada at the date of the trade;

(b) at the distribution date, after giving effect to the issue of the security and any other securities of the same class or series that were issued at the same time as or as part of the same distribution as the security, residents of Canada

  (i) did not own, directly or indirectly, more than 10% of the outstanding securities of the class or series, and

  (ii) did not represent in number more than 10% of the total number of owners, directly or indirectly, of securities of the class or series; and

(c) the first trade is made

  (i) through an exchange, or a market, outside of Canada, or

  (ii) to a person or company outside of Canada.

"Sarah B. Kavanagh"
Ontario Securities Commission

"Ann Marie Ryan"
Ontario Securities Commission

2.1.9 Kelt Exploration Ltd.

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – exemption granted from the requirement to include in a business acquisition report approximately one year of financial statement disclosure financial statements do not exist in respect of this period - exemption conditional upon the provision in the business acquisition report of certain alternative disclosure.

Applicable Legislative Provisions

National Instrument 51-102 Continuous Disclosure Obligations, ss. 8.4, 8.10(3), 13.1.

Citation: Kelt Exploration Ltd., Re, 2013 ABASC 197

May 7, 2013

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

AND

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

AND

IN THE MATTER OF
KELT EXPLORATION LTD. (THE FILER)

DECISION

Background

The securities regulatory authority or regulator in each of the Jurisdictions (the **Decision Maker**) has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the **Legislation**) exempting the Filer from the requirement under subsection 8.4(1) of National Instrument 51-102 *Continuous Disclosure Obligations* (**NI 51-102**) to include, in the 2011 Required Annual Financial Statements (as defined below), information in respect of the Grande Cache Property (as defined below) for periods prior to the date of its acquisition by Celtic Exploration Ltd. (**Celtic**) in November 2011 in the business acquisition report (the **BAR**) of the Filer to be filed in connection with the acquisition (the **Acquisition**) of the Kelt Assets (as defined below) (the **Exemption Sought**).

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

(a) the Alberta 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, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador; and

(c) this decision is the decision of the principal regulator and evidences the decision of the securities regulatory authority or regulator in Ontario.

Interpretation

Terms defined in National Instrument 14-101 *Definitions*, MI 11-102 or NI 51-102 have the same meaning if used in this decision, unless otherwise defined herein.

Representations

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

The Filer

1. The Filer was incorporated under the *Business Corporations Act* (Alberta) (the **ABCA**) on October 11, 2012 as "1705972 Alberta Ltd." On October 19, 2012, the Filer amended its articles to change its name to "Kelt Exploration Ltd." The registered and head offices of the Filer are located in Calgary, Alberta.

2. The Filer was incorporated as a wholly owned subsidiary of Celtic for the purposes of participating in the Arrangement (as defined below) and completing the Acquisition. Prior to the completion of the Arrangement and the Acquisition, the Filer did not carry on an active business, other than in connection with the Arrangement and related matters.

3. The financial year end of the Filer is December 31.

4. The Filer is a reporting issuer or the equivalent under the securities legislation of each of the provinces of Canada. The Filer is not, to its knowledge after reasonable enquiry, in default of applicable securities legislation in any jurisdiction in Canada.

5. The common shares of the Filer are listed on the Toronto Stock Exchange under the stock symbol "KEL".

The Arrangement and the Acquisition

6. On February 26, 2013, the Filer, Celtic, ExxonMobil Canada Ltd. and ExxonMobil Celtic ULC (formerly 1690731 Alberta ULC) (the **Purchaser**) completed a plan of arrangement under section 193 of ABCA (the **Arrangement**) whereby the Purchaser acquired all of the issued and outstanding common shares of Celtic.

7. As a result of the Arrangement, the Filer became a reporting issuer in each of the provinces of Canada as disclosed in the notice of change of corporate structure filed by the Filer on March 1, 2013.

8. Pursuant to the Arrangement and a conveyance agreement between the Filer and Celtic made effective as of February 26, 2013, Celtic transferred certain assets (the **Kelt Assets**) to the Filer on February 26, 2013. The Kelt Assets included all of Celtic's right, title, estate and interest in the petroleum, natural gas and related hydrocarbon rights and related personal property interests within, upon or under the lands and leases in the following areas:

   (a) the Inga area of British Columbia (the **Inga Property**);

   (b) the Grande Cache area of Alberta (the **Grande Cache Property**); and

   (c) the Karr area of Alberta lying north-east of the Smoky River (the **Karr Property**).

9. The Grande Cache Property was acquired by Celtic in November 2011, the Inga Property was acquired by Celtic in September 2010 and the Karr Property was acquired by Celtic prior to 2009.

Business Acquisition Report Requirements

10. The Acquisition constitutes a "significant acquisition" of the Filer as determined under section 8.3 of NI 51-102. Pursuant to section 8.2 of NI 51-102 the Filer is required to file the BAR on or before May 13, 2013.

11. Among the requirements of subsection 8.4(1) of NI 51-102, the BAR is required to contain the following financial statements in respect of the Kelt Assets for the year 2011: a statement of comprehensive income, a statement of changes in equity and a statement of cash flows for the year ended December 31, 2011 (the **2011 Required Annual Financial Statements**).

Subsection 8.10(3) of NI 51-102

12. Pursuant to subsection 8.10(3) of NI 51-102, a reporting issuer is exempt from the requirements set out in section 8.4 of NI 51-102 in respect of an acquisition of a business that is an interest in an oil and gas property that is not of securities of another issuer, provided that the conditions set out in subsection 8.10(3) of NI 51-102 are satisfied.

13. The acquisition of the Grande Cache Property by the Filer would satisfy the conditions in paragraphs 8.10(3)(a), (b) and (c) of NI 51-102, namely:

(a) the Acquisition constituted an acquisition of a business that is an interest in an oil and gas property and is not of securities of another issuer;

(b) the financial statements for the Grande Cache Property do not exist for the period prior to the acquisition of the Grande Cache Property by Celtic in November 2011; and

(c) the Acquisition did not constitute a reverse takeover.

Alternative Disclosure

14. The Filer proposes to include the following financial statements and information in the BAR (the Alternative Disclosure):

(a) other than the Exemption Sought, the financial statement disclosure required under section 8.4 of NI 51-102;

(b) certain disclosure modelled after subsection 8.10(3) of NI 51-102, intended to substitute for the disclosure to be omitted pursuant to the Exemption Sought, namely:

(i) an operating statement for the Grande Cache Property for the year ended December 31, 2011 (audited) prepared in accordance with subsection 3.11(5) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards;

(ii) a description of the Kelt Assets;

(iii) disclosure of the annual oil and gas production volumes of the Kelt Assets for the years ended December 31, 2011 and December 31, 2012;

(iv) the estimated reserves and related future net revenue attributable to the Kelt Assets as at September 30, 2012 (being the most recent date such information has been prepared by a qualified reserves evaluator under National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities), the material assumptions used in preparing the estimates and the identity and relationship to the Filer of the person who prepared the estimates; and

(v) the estimated oil and gas production volumes for the Kelt Assets for the year ended December 31, 2013.

Decision

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

The decision of the Decision Makers under the Legislation is that the Exemption Sought is granted provided that the BAR includes the Alternative Disclosure.

“Blaine Young”
Associate Director, Corporate Finance
Alberta Securities Commission

2.1.10 Genworth MI Canada Inc.

Headnote

Multilateral Instrument 11-102 Passport System and National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – National Instrument 55-104 Insider Reporting Requirements and Exemptions – Relief granted from the insider reporting requirements for insider in respect of the transfer and disposition of common shares pursuant to an automatic securities disposition plan being used to facilitate dispositions made pursuant to a normal course issuer bid, subject to the insider filing an insider report within 90 days of the termination of the automatic plan.

Applicable Legislative Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 107(2), 121(2)(a)(ii).
National Instrument 55-104 Insider Reporting Requirement and Exemptions, s.10.1.
Ontario Securities Commission Staff Notice 55-701 Automatic Securities Disposition Plans and Automatic Purchase Plans.

May 10, 2013

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
GENWORTH MI CANADA 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 of the principal regulator (the **Legislation**) for an exemption pursuant to Section 121(2)(a)(ii) of the *Securities Act* (Ontario) (**Act**) from the requirements set out in Section 107(2) of the Act and Part 2 of National Instrument 55-104 that an insider of the Filer, Genworth Financial, Inc. and its affiliates (**Genworth Financial**), be exempt from the requirements in the Legislation to file an insider report within 5 days of the disposition of securities (**Exemption Sought**) pursuant to an automatic securities disposition plan arising in connection with the Filer's normal course issuer bid (**NCIB**).

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 in British Columbia, Alberta, Manitoba, Saskatchewan, Québec, Nova Scotia, New Brunswick, Newfoundland and Labrador, Prince Edward Island, the Northwest Territories, Nunavut and the Yukon.

Interpretation

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

Representations

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

1. The Filer is a corporation existing under the *Canada Business Corporations Act* and a reporting issuer in each of the Jurisdictions. The Filer is not on the list of defaulting reporting issuers maintained by the securities commission in each of the Jurisdictions that maintains such a list.

2. The authorized share capital of the Filer consists of an unlimited number of common shares (**Shares**), an unlimited number of preferred shares (**Preferred Shares**) and one special share (**Special Share**). As of March 31, 2013, 98,741,567 Shares, no Preferred Shares and one Special Share were issued and outstanding.

3. As of March 31, 2013, Genworth Financial was the beneficial owner of 56,710,094 Shares (representing approximately 57.43% of the outstanding Shares), which were held directly by Brookfield Life Assurance Company Limited, Genworth Mortgage Insurance Corporation, Genworth Mortgage Insurance Corporation of North Carolina and Genworth Residential Mortgage Assurance Corporation, each an indirect wholly-owned subsidiary of Genworth Financial, and one Special Share, held directly by Brookfield Life Assurance Company Limited.

4. The Shares are listed on the Toronto Stock Exchange (**TSX**) under the symbol “MIC”.

5. The Filler has applied to commence a NCIB through the facilities of the TSX. The NCIB will be governed by the TSX Company Manual and other related rules and regulations as prescribed by the TSX.

6. The Filer has determined that it is in the best interest of the Filer that the NCIB include a proportionate participation feature to enable Genworth Financial to participate in the NCIB and maintain its proportionate percentage ownership in the Filer.

7. The Filer has received an exemption from the TSX to permit the NCIB, including the proportionate participation feature, to proceed through the facilities of the TSX in accordance with the bylaws, rules, regulations and policies of the TSX.

8. To effect the NCIB, the Filer has established an automatic share purchase plan (**ASPP**) through an independent broker. Pursuant to the ASPP, the Filer will purchase outstanding Shares from pre-existing holders of Shares, including Genworth Financial, at regular intervals and on specified terms (**Purchased Shares**). The Filer has instructed its broker to buy the Purchased Shares in accordance with a pre-arranged set of instructions as set out in the ASPP.

9. The parameters of the ASPP are set out in a written plan document to be entered into with the Filer’s independent broker at the time of the establishment of the ASPP.

10. The Filer shall represent that, concurrently with the execution of the ASPP, it is not in possession of any material undisclosed information in relation to the Filer that would otherwise be required to be disclosed by law.

11. The independent broker shall determine, in its sole discretion, the timing, amount, prices and manner of purchase of the Shares during the specified duration of the ASPP, so long as such purchases are within the limits and in accordance with the terms established by the ASPP, and the independent broker shall not consult with, or take any instructions from, the Filer or its affiliates regarding any purchases under the ASPP other than as specifically outlined in the ASPP.

12. The ASPP will operate automatically and be conducted solely through the Filer’s appointed broker for the NCIB. No material discretionary authority will remain with the Filer, and the Filer will not be aided by or in a position to profit from material undisclosed information regarding the ASPP or the NCIB. Consequently, pursuant to the ASPP, the Filer’s broker will continue to buy Shares regardless of whether any “blackout period” applicable to the Filer is in effect and regardless of whether the Filer is aware of any material undisclosed information about the Filer.

13. To ensure Genworth Financial maintains its proportionate percentage ownership in the Filer, Genworth Financial will enter into an automatic share disposition plan (ASDP) providing for the disposition of Shares held by Genworth Financial directly, or indirectly through any of its affiliates, pursuant to the NCIB. Genworth Financial will file an insider report pursuant to subsection 107(2) of the Securities Act (Ontario) at the time the ASDP is entered into.

14. As a result of the Filer’s ability, through the ASPP, to buy Shares regardless of any “blackout period” applicable to the Filer and regardless of whether the Filer is aware of any material undisclosed information about the Filer, the establishment of the ASDP is necessary for Genworth Financial to comply with the terms of the NCIB and the proportionate participation feature through the facilities of the TSX in accordance with the bylaws, rules, regulations and policies of the TSX. In particular, pursuant to the ASDP, Genworth Financial is reciprocally permitted to dispose of Shares where a “blackout period” applicable to Genworth Financial is in effect and regardless of whether Genworth Financial is aware of any material undisclosed information about the Filer, thus maintaining its proportionate percentage ownership in the Filer.

15. The parameters of the ASDP have been written out in an agreement with Genworth Financial's independent broker implementing the ASDP. The ASDP has been structured to comply with applicable securities legislation and guidance, including, *inter alia*, Clause 175(2) of Regulation 1015 under the Act, OSC Staff Notice 55-701 *Automatic Securities Disposition Plans and Automatic Securities Purchase Plans* (**OSC 55-701**) and similar rules and regulations regarding automatic dispositions of shares under Canadian securities laws. Pursuant to the Exemption Sought, it is the intent of the Filer and Genworth Financial that all sales under the ASDP shall be exempt from Subsection 76(1) of the Act and from liability under Section 134 of the Act regarding trades in securities of a reporting issuer with knowledge of a material fact or change not generally disclosed, and corresponding law and regulations across Canada.

16. The ASDP shall terminate upon the first to occur of the following:

    a. the termination of the NCIB;

    b. the termination of the ASPP in accordance with its terms;

    c. the termination of the TSX approval of the proportionate participation feature of the NCIB;

    d. the commencement of any voluntary or involuntary proceedings seeking:

        i. liquidation, reorganization or other relief under any bankruptcy, insolvency or similar law of the Genworth Financial entities selling under the ASDP, or

        ii. the appointment of a trustee, receiver or other similar official in respect of the Genworth Financial entities selling under the ASDP,

    or the taking of any corporate action by the Genworth Financial entities selling under the ASDP to authorize any of the foregoing.

17. The ASDP will operate automatically such that Genworth Financial's independent broker will sell Shares on behalf of Genworth Financial with limited discretionary ability for Genworth Financial to vary, suspend or terminate the ASDP.

18. The ASDP contains meaningful restrictions on the ability of Genworth Financial to vary, suspend or terminate the ASDP, such restrictions having the effect of ensuring that Genworth Financial cannot profit from material undisclosed information through a decision to vary, suspend or terminate the ASDP.

19. The ASDP provides that the broker shall determine, in its sole discretion, the timing, amount, prices and manner of sales of the Shares during the specified duration of the ASDP, so long as such sales are within the limits and in accordance with the terms established by the ASDP, and the independent broker shall not consult with, or take any instructions from, the Genworth Financial entities selling under the ASDP regarding any sales under the ASDP other than as specifically outlined in the ASDP.

20. At the time of entry into the ASDP, the Genworth Financial entities selling under the ASDP will represent to the broker that they are not in possession of material undisclosed information about the Filer and that they are entering into the ASDP in good faith and not as part of a plan to evade prohibitions against trading with material undisclosed information contained in applicable Canadian securities laws. Accordingly, Genworth Financial will not be aided by or in a position to profit from material undisclosed information of 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 provided that Genworth Financial shall file a report, in the form prescribed for insider trading reports under the Legislation, disclosing on a transaction-by-transaction basis or in acceptable summary form (as such term is defined in National instrument 55-101 Insider Reporting Exemptions) all dispositions of Shares under the ASDP that have not been previously disclosed by or on behalf of Genworth Financial within 90 days of the termination of the ASDP.

"Sarah B. Kavanagh"
Ontario Securities Commission

"Ann Marie Ryan"
Ontario Securities Commission

2.1.11 Starlight U.S. Multi-Family Core Fund

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – National Instrument 51-102 Continuous Disclosure Obligations – Application for relief from requirement in Section 8.4 of NI 51-102 to include financial statement disclosure in business acquisition report – Filer completed the acquisition of the acquisition properties – Filer has made every reasonable effort to obtain access to, or copies of, the historical accounting records in respect of the acquisition properties necessary to prepare and audit the acquisition properties financial statements, but such efforts were unsuccessful in respect of two of the properties – Filer filed a prospectus on April 3, 2013 – Prior to filing the prospectus, the Filer submitted a pre-filing requesting an interpretation that the prospectus would include satisfactory financial statements or other information as an alternative to the financial statements or other information that will be required to be included in, or incorporated by reference into, a BAR filed under Part 8 of NI 51-102 – Prospectus included the prospectus financials – Relief granted subject to conditions including provision of the acquisition financials.

Applicable Legislative Provisions

National Instrument 51-102 Continuous Disclosure Obligations, s. 8.4.

May 14, 2013

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
STARLIGHT U.S. MULTI-FAMILY CORE FUND
(the Filer)

DECISION

Background

The principal regulator in the Jurisdiction (the **Decision Maker**) has received an application from the Filer for a decision under the securities legislation of the Jurisdiction of the principal regulator (the **Legislation**) for a decision pursuant to Section 13.1 of National Instrument 51-102 *Continuous Disclosure Obligations* (**NI 51-102**) that the Filer be exempt from the requirement to include the financial statement disclosure prescribed under section 8.4 of NI 51-102 and Item 3 of Form NI 51-102F4 *Business Acquisition Report* relating to financial statement disclosure for significant acquisitions, so that the Filer does not need to include financial statements of the Bridgemoor (as defined herein) and Towne Lake (as defined herein) properties for the period prior to their respective dates of acquisition by the Vendors (as defined herein) in the business acquisition report (**BAR**) of the Filer relating to the Acquisition (as defined herein) (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, 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 in each of British Columbia, Alberta, Saskatchewan, Manitoba, Québec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador (collectively, with Ontario, the **Jurisdictions**).

Interpretation

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

Representations

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

1. The principal, registered and head office of the Filer is located at 401 The West Mall, Suite 1100, Toronto, Ontario, M9C 5J5.

2. The Filer is a limited partnership established on February 12, 2013 under, and governed by, the laws of the Province of Ontario, pursuant to a limited partnership agreement dated February 12, 2013, as amended and/or restated from time to time.

3. The Filer is a reporting issuer, or the equivalent thereof, in each Province of Canada.

4. The interests in the Filer are divided into five classes of limited partnership units (Units): Class A Units, Class U Units, Class I Units, Class F Units and Class C Units. The Filer is authorized to issue an unlimited number of Units of each class. As at the date hereof, there are 4,550,000 Units outstanding.

5. The Class A Units and Class U Units of the Filer are listed and posted for trading on the TSX Venture Exchange under the symbols “UMF.A” and “UMF.U” respectively.

6. The Filer was formed to own multi-family real estate properties located in the U.S., including an initial portfolio of three properties (the **Acquisition Properties**) consisting of (i) The Falls at Copper Lake Apartments in Houston, Texas (**Copper Lake**), (ii) Bridgemoor Apartments in Denton, Texas (**Bridgemoor**) and (iii) Villages of Towne Lake in Pearland, Texas (**Towne Lake**).

7. On April 3, 2013, the Principal Regulator issued a receipt (the **Receipt**) in respect of a final prospectus of the Filer (the **Prospectus**) relating to the initial public offering of the Units (the **IPO**) qualifying for distribution up to US$75 million of Units (as well as further Units issuable pursuant to an over-allotment option granted to the agents of the IPO).

8. The Receipt evidenced the granting by the Principal Regulator of relief requested relating to financial statement presentation in the Prospectus (the **Prospectus Relief**), exempting the Filer from, among other things, the requirements of National Instrument 41-101 *General Prospectus Requirements* to include historical financial statements of the Acquisition Properties, for the period prior to the acquisition of the Acquisition Properties by the vendors thereof (the Vendors).

9. On April 18, 2013, the Filer completed its IPO of approximately US$44.41 million of Units, and on April 23, 2013, the Filer completed its acquisition of the Acquisition Properties for an aggregate purchase price of approximately US$80.58 million, satisfied, in part, by way of approximately US$29.15 million in cash from the proceeds of the IPO (the **Acquisition**).

10. Prior to the Acquisition, Bridgemoor was owned by an affiliate of Interwest Capital Corporation (the **Bridgemoor Vendor**). The Bridgemoor Vendor initially purchased, in December 2010, two construction loans secured by Bridgemoor and ultimately acquired Bridgemoor pursuant to a foreclosure on such loans in February 2011.

11. At the time of the Bridgemoor Vendor's acquisition of Bridgemoor, the property was under its initial construction, with a limited number of completed rental suites being tenanted, and was, therefore, mostly vacant.

12. Other than summary internal financial information (which was incomplete and unsuitable for the purposes of preparing audited financial statements) obtained as part of its due diligence process in connection with the loan acquisition, the Bridgemoor Vendor did not possess, nor have access to, and was not entitled to obtain access to, financial information in respect of Bridgemoor for any period prior to acquisition by the Bridgemoor Vendor.

13. Starlight Investments Ltd., the promoter of the Filer for the IPO and the manager of the Filer (the **Manager**) had, without success, made (including with the assistance of the Bridgemoor Vendor) every reasonable effort to obtain access to, or copies of, historical accounting records in respect of Bridgemoor for the period prior to its acquisition by the Bridgemoor Vendor.

14. Prior to the Acquisition, Towne Lake was owned by an affiliate of Interwest Capital Corporation (the **Towne Lake Vendor**). The Towne Lake Vendor purchased, in July 2011, a construction loan secured by Towne Lake and acquired Towne Lake simultaneously with the purchase of the loan by receiving a deed in lieu of foreclosure on such loan.

15. At the time of the Towne Lake Vendor's acquisition of Towne Lake, the property was transitioning from initial lease-up and was only 60-65% occupied.

16. Other than summary internal financial information (which was incomplete and unsuitable for the purposes of preparing audited financial statements) obtained as part of its due diligence process in connection with the loan acquisition, the Towne Lake Vendor did not possess, nor have access to, and was not entitled to obtain access to, financial information in respect of Towne Lake for any period prior to acquisition by the Towne Lake Vendor.

17. The Manager had, without success, made (including with the assistance of the Towne Lake Vendor) every reasonable effort to obtain access to, or copies of, historical accounting records in respect of Towne Lake for the period prior to its acquisition by the Towne Lake Vendor.

18. The Acquisition is a "significant acquisition" for purposes of NI 51-102 and the Filer must file a BAR in respect of the Acquisition.

19. Unless otherwise exempted pursuant to section 13.1 of NI 51-102, the BAR must include or incorporate by reference the financial statements set out in section 8.4 of NI 51-102 relating to the Acquisition Properties (the **BAR Financials**).

20. In respect of Copper Lake, the BAR will include audited statements of income and comprehensive income, changes in owners' equity and cash flows for the years ended December 31, 2011 and December 31, 2012, together with statements of financial position as at December 31, 2011 and December 31, 2012 (and accompanying notes thereto). No relief is requested for these financial statements as the acquisition of Copper Lake by the vendor of Copper Lake was completed in 2010.

21. The Filer will file the BAR within 60 days of March 31, 2013, being the most recently completed interim period of the Acquisition Properties, in which case, pursuant to paragraphs 8.4(4)(a), 8.4(4)(c)(i)(B) and subsection 8.4(6) of NI 51-102, the Filer is exempted from the requirement to include in the BAR Financials financial statements and pro forma financial statements concerning or including the most recently completed interim period (being the period ended March 31, 2013).

22. The Filer will satisfy the requirements in respect of the BAR Financials by including in the BAR the following financial statements (each prepared in accordance with International Financial Reporting Standards):

    (a) In respect of Bridgemoor, audited statements of income and comprehensive income, changes in owners' equity and cash flows for the years ended December 31, 2011 and December 31, 2012, together with statements of financial position as at December 31, 2011 and December 31, 2012 (and accompanying notes thereto), subject to the foregoing presentation only including financial information for the period after acquisition by the Vendor of Bridgemoor in February 2011.

    (b) In respect of Towne Lake, audited statements of income and comprehensive income, changes in owners' equity and cash flows for the years ended December 31, 2011 and December 31, 2012, together with statements of financial position as at December 31, 2011 and December 31, 2012 (and accompanying notes thereto), subject to the foregoing presentation only including financial information for the period after acquisition by the Vendor of Towne Lake in July 2011.

    (c) In respect of Copper Lake, audited statements of income and comprehensive income, changes in owners' equity and cash flows for the years ended December 31, 2011 and December 31, 2012, together with statements of financial position as at December 31, 2011 and December 31, 2012 (and accompanying notes thereto).

    (d) Unaudited pro forma statements of income and comprehensive income of the Filer for the year ended December 31, 2012, an unaudited pro forma condensed consolidated statement of financial position of the Filer as at December 31, 2012 (in each case giving effect to the IPO including the acquisition of the Acquisition Properties by the Filer as if such events occurred at the commencement of the applicable reporting periods), together with accompanying notes, prepared using the same accounting policies of the statements described above, and pro forma earnings per share based on the foregoing pro forma statements of income and comprehensive income of 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 Filer must file the BAR within 60 days of March 31, 2013, being the most recently completed interim period of the Acquisition Properties, in which case pursuant to paragraphs 8.4(4)(a), 8.4(4)(c)(i)(B) and subsection 8.4(6) of NI 51-102, the

Filer is exempted from the requirements to include in the BAR financial statements and pro-forma financial statements concerning the most recently completed interim period being March 31, 2013.

The decision of the principal regulator under the Legislation is that the Exemption Sought is granted with respect to the BAR provided that the Filer includes in the BAR the following financial statements required to be filed by the Filer in connection with a significant acquisition completed by the Filer on April 23, 2013 (each prepared in accordance with International Financial Reporting Standards):

(a) In respect of Bridgemoor, audited statements of income and comprehensive income, changes in owners' equity and cash flows for the years ended December 31, 2011 and December 31, 2012, together with statements of financial position as at December 31, 2011 and December 31, 2012 (and accompanying notes thereto), subject to the foregoing presentation only including financial information for the period after acquisition by the Vendor of Bridgemoor in February 2011.

(b) In respect of Towne Lake, audited statements of income and comprehensive income, changes in owners' equity and cash flows for the years ended December 31, 2011 and December 31, 2012, together with statements of financial position as at December 31, 2011 and December 31, 2012 (and accompanying notes thereto), subject to the foregoing presentation only including financial information for the period after acquisition by the Vendor of Towne Lake in July 2011.

(c) In respect of Copper Lake, audited statements of income and comprehensive income, changes in owners' equity and cash flows for the years ended December 31, 2011 and December 31, 2012, together with statements of financial position as at December 31, 2011 and December 31, 2012 (and accompanying notes thereto).

(d) Unaudited pro forma statements of income and comprehensive income of the Filer for the year ended December 31, 2012, an unaudited pro forma condensed consolidated statement of financial position of the Filer as at December 31, 2012 (in each case giving effect to the IPO including the acquisition of the Acquisition Properties by the Filer as if such events occurred at the commencement of the applicable reporting periods), together with accompanying notes, prepared using the same accounting policies of the statements described above, and pro forma earnings per share based on the foregoing pro forma statements of income and comprehensive income of the Filer.

"Sonny Randhawa"
Manager, Corporate Finance
Ontario Securities Commission

2.2 Orders

2.2.1 Energy Syndications Inc. et al. – Rules 1.6(2), 4.3(1), 4.5(1), and 4.5(2) of the OSC Rules of Procedure

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

AND

IN THE MATTER OF
ENERGY SYNDICATIONS INC.,
GREEN SYNDICATIONS INC.,
SYNDICATIONS CANADA INC.,
DANIEL STRUMOS, MICHAEL BAUM
and DOUGLAS WILLIAM CHADDOCK

ORDER
(Rules 1.6(2), 4.3(1), 4.5(1), and 4.5(2) of the
Ontario Securities Commission Rules of Procedure
(2012), 35 O.S.C.B. 10071)

WHEREAS on April 8, 2013, the Ontario Securities Commission (the "Commission") convened to conduct a hearing on the merits with respect to the allegations contained in the Statement of Allegations filed by Staff of the Commission ("Staff") on March 30, 2012 in respect of Energy Syndications Inc., Green Syndications Inc., Syndications Canada Inc., Daniel Strumos ("Strumos"), Michael Baum ("Baum"), and Douglas William Chaddock ("Chaddock");

AND WHEREAS on April 8, 2013, having considered the submissions of Staff and Chaddock, Baum not appearing, the Commission ordered that:

1. The hearing on the merits is adjourned until 10:00 a.m. on May 14, 2013, and will continue on May 15, 16, 17, 22, 23 and 24, 2013.

2. On or before May 6, 2013, Chaddock shall provide a report to the Commission from his neurologist, detailing any cognitive deficiency of Chaddock that might affect his ability to understand and respond to evidence, what treatment plan has been undertaken and whether and when it is reasonably expected that there will be improvement in Chaddock's ability to understand and respond to evidence.

3. A copy of this order shall be forthwith provided to the neurologist.

4. This matter will come back on for hearing on May 8, 2013, at 9:00 a.m., to permit a further motion for adjournment to be made, if necessary.

AND WHEREAS on May 8, 2013, the Ontario Securities Commission (the "Commission") held a status update hearing in this matter;

AND WHEREAS Staff, Chaddock and Strumos appeared, Baum not appearing;

AND WHEREAS Chaddock withdrew his request to further adjourn the hearing on the merits;

AND WHEREAS Chaddock requested that the Commission allow him to deliver to Staff copies of the documents he intends to rely on at the hearing on the merits, his witness list and witness summaries by Friday, May 10, 2013;

AND WHEREAS Rule 4.3(1) of the Commission's *Rules of Procedure* (2012), 35 O.S.C.B. 10071 (the "Rules") requires each party to deliver to every other party copies of all documents the party intends to rely on at least 20 days before the commencement of the hearing on the merits, and Rules 4.5(1) and 4.5(2) require each party to deliver to every other party the party's witness list and a summary of the evidence each witness is expected to give at the hearing at least 10 days before the commencement of the hearing;

AND WHEREAS Rule 1.6(2) provides that a Panel may extend or abridge any time period in the Rules on any conditions that the Panel considers advisable;

AND WHEREAS Staff opposed Chaddock's request and Strumos made no submissions;

AND WHEREAS, at the request of the Commission and with the consent of Staff, Chaddock, and Strumos, the hearing on the merits will commence on Wednesday, May 15, 2013, at 9:00 a.m., and the scheduled hearing date of Tuesday, May 14, 2013 will be vacated;

AND WHEREAS Staff anticipates that Staff will require approximately 4 to 5 days to present its case, depending on the duration of cross-examination by the Respondents;

AND WHEREAS, having considered the submissions of Staff and Chaddock, it is the opinion of the Commission that it is in the public interest to accommodate Chaddock's request and avoid any adjournment of the hearing on the merits, and that any prejudice to Staff resulting from the late delivery of Chaddock's document can be addressed, if appropriate, during the hearing on the merits and based on the submissions of Staff and Chaddock at that time;

IT IS ORDERED that:

1. The hearing day scheduled for May 14, 2013 is vacated, and the hearing on the merits will commence at 9:00 a.m. on May 15, 2013, and continue on May 16, 17, 22, 23 and 24, 2013.

2. The time prescribed under Rules 4.3(1), 4.5(1) and 4.5(2) is abridged, pursuant to Rule 1.6(2).

3. Chaddock shall deliver to Staff, by noon on Friday, May 10, 2013, copies of the documents on which he intends to rely at the hearing on the merits, as required pursuant to Rule 4.3(1), his witness list, as required pursuant to Rule 4.5(1), and witness summaries, as required pursuant to Rule 4.5(2).

DATED at Toronto this 8th day of May, 2013.

"Alan J. Lenczner"

2.2.2 Ronald James Ovenden et al. – ss. 127(1), 127(7), 127(8)

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

AND

IN THE MATTER OF
RONALD JAMES OVENDEN,
NEW SOLUTIONS CAPITAL INC.,
NEW SOLUTIONS FINANCIAL CORPORATION AND
NEW SOLUTIONS FINANCIAL (II) CORPORATION

ORDER
(Subsections 127(1), 127(7) and 127(8))

WHEREAS on April 11, 2012, the Ontario Securities Commission (the "Commission") issued an order (the "Temporary Order") pursuant to subsections 127(1) and 127(5) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") that:

1. all trading in the securities of New Solutions Financial Corporation ("NSFC"), New Solutions Financial (II) Corporation ("NSFII"), New Solutions Financial (III) Corporation ("NSFIII") and New Solutions Financial (VI) Corporation ("NSFVI") shall cease immediately;

2. New Solutions Capital Inc. ("NSCI"), NSFC, NSFII, NSFIII, NSFVI, their employees, representatives and Ronald James Ovenden ("Ovenden") shall cease trading in all securities of NSFC, NSFII, NSFIII and NSFVI immediately; and

3. any exemptions contained in Ontario securities law do not apply to NSCI, NSFC, NSFII, NSFIII, NSFVI, their employees and representatives and Ovenden;

AND WHEREAS on April 18, 2012, the Commission issued a Notice of Hearing to consider, among other things, the extension of the Temporary Order, to be held on April 25, 2012 at 2:00 p.m.;

AND WHEREAS on April 25, 2012, Staff appeared before the Commission and no one appeared on behalf of any of the respondents;

AND WHEREAS on April 25, 2012, upon hearing submissions from Staff and upon being advised by Staff that NSFC, NSFII, NSFIII and NSFVI did not oppose the extension of the Temporary Order and Ovenden took no position on the extension of the Temporary Order, the Commission ordered that the hearing in this matter be adjourned to October 11, 2012 at 9:00 a.m. or to such other date or time as set by the Office of the Secretary and

agreed to by the parties and that the Temporary Order be extended for a period of 6 months, until October 12, 2012;

AND WHEREAS on October 11, 2012, Staff and counsel to NSFC, NSFII, NSFIII and NSFVI appeared and no on appeared on behalf of NSCI and Ovenden;

AND WHEREAS Staff noted that paragraph 8 of the Temporary Order should have provided that only NSCI and Ovenden, as registrants, may have failed to deal fairly, honestly and in good faith with their clients, contrary to section 2.1 of Ontario Securities Commission Rule 31-505 and NSCI, NSFC, NSFII, NSFIII, NSFVI and Ovenden may have engaged in conduct that is contrary to subsections 44(2) and 126.1 of the Act;

AND WHEREAS on hearing submissions from Staff and counsel to NSFC, NSFII, NSFIII and NSFVI and on being advised by Staff that NSCI and Ovenden did not oppose the extension of the Temporary Order, the Commission ordered that the hearing in this matter be adjourned to May 9, 2013 at 10:00 a.m. or to such other date or time as set by the Office of the Secretary and agreed to by the parties and that the Temporary Order be extended until May 10, 2013;

AND WHEREAS on March 28, 2013 the Commission issued a Notice of Hearing pursuant to sections 127 and 127.1 of the Act in respect of Ovenden, NSCI, NSFC and NSFII and Staff filed a Statement of Allegations (the "Statement of Allegations");

AND WHEREAS NSFIII and NSFVI are not named in the Notice of Hearing dated March 28, 2013 nor in the Statement of Allegations;

AND WHEREAS NSFC and NSFII entered into a Settlement Agreement dated March 28, 2013 (the "Settlement Agreement") in relation to certain matters set out in the Statement of Allegations;

AND WHEREAS on April 1, 2013 the Commission issued a Notice of Hearing in respect of the Settlement Agreement;

AND WHEREAS by order dated April 10, 2013 the Commission approved the Settlement Agreement;

AND WHEREAS pursuant to the Notice of Hearing dated March 28, 2013, an attendance before the Commission was held on May 1, 2013;

AND WHEREAS upon reviewing the Notice of Hearing dated March 28, 2013, the Statement of Allegations, and the affidavit of Tia Faerber sworn April 25, 2013, and upon considering the submissions of counsel to Ovenden and of Staff, no one appearing for NSCI although duly served in accordance with the Commission's Rules of Procedure, the Commission ordered that the hearing (the "Merits Hearing") be adjourned to August 1, 2013 at 10:00 a.m.;

AND WHEREAS on May 1, 2013, Staff appeared before the Commission and advised that on May 9, 2013, a further extension of the Temporary Order would be sought until the completion of the Merits Hearing;

AND WHEREAS Staff further advised that counsel to Ovenden and NSCI indicated that Ovenden and NSCI do not oppose a further extension of the Temporary Order until the completion of the Merits Hearing;

AND WHEREAS the Commission is of the opinion that it is in the public interest to make this order;

IT IS HEREBY ORDERED that:

1. The Temporary Order is vacated as against NSFC, NSFII, NSFIII and NSFVI;

2. The hearing in this matter is adjourned to the completion of the Merits Hearing or to such other date or time as set by the Office of the Secretary and agreed to by the parties; and

3. The Temporary Order shall be extended until the completion of the Merits Hearing.

DATED at Toronto this 9th day of May, 2013.

"James E. A. Turner"

2.2.3 Bunting & Waddington Inc. et al. – s. 127(1)

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

AND

IN THE MATTER OF
BUNTING & WADDINGTON INC., ARVIND SANMUGAM, JULIE WINGET and JENIFER BREKELMANS

AND

IN THE MATTER OF
A SETTLEMENT AGREEMENT BETWEEN STAFF OF THE ONTARIO SECURITIES COMMISSION AND JENIFER BREKELMANS

ORDER
(Subsection 127(1))

WHEREAS on March 22, 2012, the Ontario Securities Commission (the "Commission") issued a Notice of Hearing pursuant to sections 127 and 127.1 (the "Notice of Hearing") of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") in respect of Jenifer Brekelmans ("Brekelmans");

AND WHEREAS Brekelmans entered into a Settlement Agreement with Staff of the Commission dated May 8, 2013 (the "Settlement Agreement") in which Brekelmans agreed to a proposed settlement of the proceeding commenced by the Notice of Hearing, subject to the approval of the Commission;

AND UPON reviewing the Settlement Agreement, the Notice of Hearing and Statement of Allegations of Staff of the Commission dated March 22, 2012, and upon hearing submissions from Brekelmans and from Staff of the Commission;

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

IT IS HEREBY ORDERED THAT:

(a) the Settlement Agreement is approved;

(b) pursuant to paragraph 2 of subsection 127(1) of the Act, trading in any securities by Brekelmans cease for a period of 7 years from the date of the approval of the Settlement Agreement;

(c) pursuant to paragraph 2.1 of subsection 127(1) of the Act, the acquisition of any securities by Brekelmans is prohibited for a period of 7 years from the date of the approval of the Settlement Agreement;

(d) pursuant to paragraph 3 of subsection 127(1) of the Act, any exemptions contained in Ontario securities law do not apply to Brekelmans for a period of 7 years from the date of the approval of the Settlement Agreement;

(e) pursuant to paragraph 8, 8.2 and 8.4, respectively, of subsection 127(1) of the Act, Brekelmans is prohibited for a period of 7 years from the date of the approval of the Settlement Agreement from becoming or acting as a director or officer of any issuer, registrant, or investment fund manager;

(f) pursuant to paragraph 8.5 of subsection 127(1) of the Act, Brekelmans is prohibited for a period of 7 years from the date of the approval of the Settlement Agreement from becoming or acting as a registrant, as an investment fund manager or as a promoter; and,

(g) pursuant to paragraph 10 of subsection 127(1) of the Act, Brekelmans shall disgorge to the Commission the amount of $1,500 obtained as a result of her non-compliance with Ontario securities law. The amount of $1,500 disgorged shall be designated for allocation or for use by the Commission, pursuant to subsection 3.4(2)(b) of the Act;

(h) notwithstanding the provision of this order, once Brekelmans has fully satisfied the terms of sub-paragraph (g) above, Brekelmans will be permitted to trade for the account of her registered retirement savings plans as defined in the *Income Tax Act*, R.S.C. 1985, c.1, as amended (the "Income Tax Act") solely through a registered dealer or, as appropriate, a registered dealer in a foreign jurisdiction (which dealer must be given a copy of this order) in (a) any "exchange-traded security" or "foreign exchange-traded security" within the meaning of National Instrument 21-101 provided that she does not own beneficially or exercise control or direction over more than 5 percent of the voting or equity securities of the issuer(s) of any such securities, and (b) any security issued by a mutual fund that is a reporting issuer.

DATED AT TORONTO this 9th day of May, 2013.

"James E. A. Turner"

2.2.4 Canadian Depository for Securities Limited and CDS Clearing and Depository Services Inc. – s. 144

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

AND

IN THE MATTER OF
THE CANADIAN DEPOSITORY FOR SECURITIES LIMITED
AND
CDS CLEARING AND DEPOSITORY SERVICES INC.

VARIATION ORDER
(Section 144 of the Act)

WHEREAS the Ontario Securities Commission (**Commission**) issued an order dated July 4, 2012 pursuant to section 21.2 of the Act continuing the recognition of The Canadian Depository for Securities Limited (**CDS Ltd.**) and CDS Clearing and Depository Services Inc. (**CDS Clearing**) as clearing agencies (**Recognition Order**);

AND WHEREAS the Commission issued an order dated December 7, 2012 varying the Recognition Order by replacing the definition of "original Maple shareholder" in Part 1 of Schedule B with a new definition of "original Maple shareholder" which includes 1802146 Ontario Limited, an affiliate of TD Securities Inc.;

AND WHEREAS the Commission issued an order dated December 21, 2012 varying and restating the Recognition Order under which the fiscal year-end for each of CDS Ltd. and CDS Clearing was changed to December 31 (**Current Recognition Order**);

AND WHEREAS CDS Clearing has filed an application (**Application**) with the Commission to vary the Current Recognition Order pursuant to section 144 of the Act to extend the deadline to receive a report from an independent qualified party concerning a review of its rules and arrangements to February 28, 2014;

AND WHEREAS Commission staff have been discussing with CDS Clearing the scope and process for the review of CDS Clearing's rules and arrangements and staff will be discussing with CDS Clearing a more detailed timeline for the review and will monitor the process of the review within the overall timetable for the review and completion of the report;

AND WHEREAS the Commission has determined based on the Application and representations made by CDS Clearing that it is not prejudicial to the public interest to vary the Current Recognition Order to extend the time period under which CDS Ltd. and CDS Clearing shall obtain a report from an independent qualified party concerning a review of CDS Clearing's rules and arrangements;

IT IS ORDERED, pursuant to section 144 of the Act, that the Current Recognition Order be varied by replacing the reference to "within 9 months of the effective date of this order" in section 19.1 of Schedule B with a reference to "by February 28, 2014"

DATED at Toronto this 1st day of May, 2013**.**

"Howard Wetston"

"James Turner"

2.2.5 Children's Education Funds Inc.

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

AND

IN THE MATTER OF
CHILDREN'S EDUCATION FUNDS INC.

ORDER

WHEREAS on September 14, 2012, the Ontario Securities Commission (the "Commission") ordered pursuant to subsections 127(1) and (5) of the *Securities Act*, R.S.O. 1990, c. S.5 as amended (the "Act") and with the consent of Children's Education Funds Inc. ("CEFI") that the terms and conditions (the "Terms and Conditions") set out in Schedule "A" to the Commission order dated September 14, 2012 be imposed on CEFI (the "Temporary Order");

AND WHEREAS on September 14, 2012, the Commission ordered that the Temporary Order shall take effect immediately and shall expire on the fifteenth day after its making unless extended by order of the Commission and ordered that the matter be brought back before the Commission on September 26, 2012 at 10:00 a.m.;

AND WHEREAS on September 20, 2012, the Commission issued a Notice of Hearing pursuant to section 127 in respect of a hearing to be held on September 26, 2012 at 10:00 a.m. to consider whether, in the opinion of the Commission, it was in the public interest, pursuant to subsection 127(7) and (8) of the Act to extend the Temporary Order;

AND WHEREAS on September 26, 2012, the Commission extended the Temporary Order against CEFI until December 7, 2012 and ordered that the matter be brought back before the Commission on December 6, 2012 at 10:00 a.m.;

AND WHEREAS the Terms and Conditions of the Temporary Order required CEFI to retain a consultant (the "Consultant") to prepare and assist CEFI in implementing plans to strengthen their compliance systems and to retain a monitor (the "Monitor") to review all applications of new clients and contact new clients as set out in the Terms and Conditions;

AND WHEREAS CEFI retained Compliance Support Services Inc. ("Compliance Support") as both its Monitor and its Consultant;

AND WHEREAS Compliance Support filed its Consultant's plan on October 2, 2012 and filed an addendum to the Consultant's plan with the OSC Manager on November 12, 2012;

AND WHEREAS on December 6, 2012, Staff filed an Affidavit of Lina Creta sworn December 3, 2012 setting out the monitoring and consulting work completed to date by Compliance Support;

AND WHEREAS on December 6, 2012, the Commission approved a revised monitoring regime which consisted of a review of a random sample of 50% of applications from new clients of CEFI with an income less than $50,000 and a random sample of 10% of applications from new clients with an income greater than $50,000 for the purpose of ensuring adequate KYC Information in order to determine suitability of the investment and should the Monitor not be satisfied with the KYC Information for this purpose, to contact the new client;

AND WHEREAS on December 6, 2012, the Temporary Order was extended to March 1, 2013 and the hearing was adjourned to February 28, 2013 at 10:00 a.m. for the purpose of providing the Commission with an update on the work completed by the Monitor and the Consultant and to consider whether any changes were required to the Terms and Conditions;

AND WHEREAS on February 28, 2013, the Commission varied the terms of the monitoring set out in paragraph 5 of the Terms and Conditions, extended the Temporary Order to May 13, 2013 and adjourned the hearing to May 10, 2013;

AND WHEREAS on May 10, 2013 Staff filed an Affidavit of Lina Creta sworn May 9, 2013 attaching the Progress report and Monitor reports filed with Staff since February 28, 2013 and correspondence between Staff and the Consultant;

AND WHEREAS the Consultant has provided a letter to the OSC Manager dated May 7, 2013 stating that the monitoring of CEFI's new client applications is no longer necessary;

AND WHEREAS the parties request that the Temporary Order be varied to suspend the role and activities of the Monitor as provided by the terms of this Order;

AND WHEREAS the Commission considers that it is in the public interest to make this Order;

IT IS HEREBY ORDERED pursuant to section 127 of the Act that:

1. As at the close of business on May 10, 2013, the role and activities of the Monitor as set out in paragraphs 5, 6, 8 and 9 of the Terms and Conditions as amended by Commission Orders dated December 6, 2012 and February 27, 2013, and the activity of CEFI as set out in paragraph 8 of the Terms and Conditions are suspended.

2. The Temporary Order is extended to July 22, 2013.

3. The hearing is adjourned to July 19, 2013 at 10:00 a.m. for the purpose of providing the Commission with an update on the work completed by the Consultant.

DATED at Toronto this 10th day of May, 2013.

"James E. A. Turner"

2.2.6 Beryl Henderson

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

AND

IN THE MATTER OF
BERYL HENDERSON

ORDER

WHEREAS on March 30, 2012, the Ontario Securities Commission (the "Commission") issued a Notice of Hearing pursuant to sections 127 and 127.1 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act"), in connection with a Statement of Allegations filed by Staff of the Commission ("Staff") on March 30, 2012 with respect to Beryl Henderson ("Henderson");

AND WHEREAS the Notice of Hearing set a hearing in this matter for May 2, 2012 at 11:30 a.m.;

AND WHEREAS on May 2, 2012, Staff appeared before the Commission and counsel for Henderson and a Crown Attorney attended the hearing via teleconference;

AND WHEREAS on May 2, 2012, the Commission ordered that the hearing of this matter be adjourned to November 22, 2012 for a confidential pre-hearing conference;

AND WHEREAS on November 22, 2012, Staff appeared before the Commission and counsel for Henderson attended the hearing via teleconference;

AND WHEREAS on November 22, 2012, the Commission heard submissions from Staff and from counsel for Henderson;

AND WHEREAS on November 22, 2012, the Commission ordered that the confidential pre-hearing conference be continued on March 4, 2013;

AND WHEREAS on February 15, 2013, the Commission ordered that the date for the confidential pre-hearing conference be vacated and that the confidential pre-hearing conference be adjourned to March 11, 2013 at 11:00 a.m.;

AND WHEREAS on March 8, 2013, the Commission ordered that the date for the confidential pre-hearing conference be vacated and that the confidential pre-hearing conference be adjourned to May 23, 2013 at 10:00 a.m.;

AND WHEREAS the Commission is of the opinion that it is in the public interest to issue this order;

AND WHEREAS the parties consent to the making of this order;

IT IS HEREBY ORDERED THAT the date set for the confidential pre-hearing conference be vacated and that the confidential pre-hearing conference be adjourned to June 12, 2013 at 10:00 a.m. or to such other date as agreed to by the parties and advised by the Office of the Secretary.

DATED at Toronto this 13th day of May, 2013.

"James E. A. Turner"

Chapter 3

Reasons: Decisions, Orders and Rulings

3.1 OSC Decisions, Orders and Rulings

3.1.1 Simply Wealth Financial Group Inc. et al. – ss. 127, 127.1

[Editor's Note: These reasons were inadvertently not published in the Bulletin at the time they were released. The accompanying Notice from the Office of the Secretary was published on January 17, 2013 at (2013), 36 OSCB 773, and the accompanying Order was inadvertently published twice on January 17, 2013 at (2013), 36 OSCB 806 and (2013), 36 OSCB 811.]

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

AND

IN THE MATTER OF
SIMPLY WEALTH FINANCIAL GROUP INC.,
NAIDA ALLARDE, BERNARDO GIANGROSSO,
K&S GLOBAL WEALTH CREATIVE STRATEGIES INC.,
KEVIN PERSAUD, MAXINE LOBBAN and WAYNE LOBBAN

REASONS AND DECISION ON SANCTIONS AND COSTS
(Sections 127 and 127.1 of the Securities *Act*)

Hearing:	November 27, 2012 December 5, 2012		
Decision:	January 9, 2013		
Panel:	James D. Carnwath, Q.C.	–	Commissioner and Chair of the Panel
Appearances:	Christie Johnson	–	For Staff of the Commission
	Peter Carey	–	For Kevin Persaud
	Naida Allarde	–	Self-represented
	Bernardo Giangrosso	–	Self-represented
	Maxine Lobban	–	Self-represented
	Wayne Lobban	–	Self-represented
	K&S Global Wealth Creative Strategies Inc.	–	No one appeared
	Simply Wealth Financial Group Inc.	–	No one appeared

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I. OVERVIEW

[1] This matter involved a Ponzi scheme conceived in the United States, operating as Gold-Quest International ("**Gold-Quest**"). In the period from June 2006 to June 2008 (the "**Material Time**"), Ontario residents were persuaded to invest hundreds of thousands of dollars in a scheme whereby their money would be placed in foreign exchange trading ("**forex**"). Gold-Quest promised an annual return of 87.5%. Investors who introduced new investors to Gold-Quest were handsomely rewarded.

[2] Ontario residents invested in Gold-Quest as a result of promotional activities of Naida Allarde, Bernardo Giangrosso, Kevin Persaud, Maxine Lobban and Wayne Lobban (the "**Individual Respondents**") and their respective companies, Simply Wealth Financial Group Inc. ("**Simply Wealth**") and K&S Global Wealth Creative Strategies Inc. ("**K&S**") (the "**Corporate Respondents**") contrary to various sections of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "***Act***").

[3] In my decision, dated June 21, 2012, following a hearing on the merits of the Ontario Securities Commission (the "**Commission**"), I found that:

(i) Simply Wealth, Naida Allarde, and Bernardo Giangrosso (collectively, the "**Simply Wealth Respondents**") engaged in conduct contrary to the public interest and breached the provisions of the *Act* in the following ways:

(a) they traded in securities without registration contrary to section 25 of the *Act*;

(b) they engaged in an illegal distribution of securities contrary to section 53 of the *Act*; and

(c) as directors of Simply Wealth, Naida Allarde and Bernardo Giangrosso authorized, permitted or acquiesced in breaches of sections 25 and 53 of the *Act* by Simply Wealth, contrary to s. 129.2 of the *Act*.

(ii) K&S and Kevin Persaud (collectively, the "**K&S Respondents**") engaged in conduct contrary to the public interest and breached the provisions of the *Act* in the following ways:

(a) they traded in securities without registration contrary to section 25 of the *Act*;

(b) they engaged in an illegal distribution of securities contrary to section 53 of the *Act*,

(c) as a director of K&S, Kevin Persaud authorized, permitted or acquiesced in breaches of sections 25 and 53 of the *Act* by K&S, contrary to section 129.2 of the *Act*.

(iii) Maxine Lobban and Wayne Lobban (collectively, the "Lobban Respondents") engaged in conduct contrary to the public interest and breached the provisions of the *Act* in the following ways:

(a) they traded in securities without registration contrary to section 25 of the *Act*; and

(b) they engaged in an illegal distribution of securities contrary to section 53 of the *Act*.

(*Re Simply Wealth Financial Group Inc.* (2012), 35 O.S.C.B. 6007 (the "**Merits Decision**") at paras. 63-65).

[4] I further accepted that all the respondents promoted investments in Gold-Quest and received commissions from Gold-Quest as follows:

RESPONDENT	TOTAL INVESTED	COMMISSION REALIZED
Simply Wealth Respondents	$958,738.73 (USD)	$215,790.00 (USD)
K&S Respondents	$254,007.04 (USD)	$90,000 (USD)
Lobban Respondents	$187,997.88 (USD)	$84,381.50 (CDN) $36,046.00 (USD)

(Merits Decision, above at paras. 20-21)

II. STAFF SUBMISSIONS ON SANCTIONS

[5] Staff of the Commission ("**Staff**") submit that the following sanctions are appropriate and in the public interest, given the findings set out in the Decision:

(A) The Corporate Respondents

- an order that each cease trading in and acquiring in securities permanently;
- an order that any exemptions contained in Ontario securities law do not apply to either permanently;
- an order making Simply Wealth, jointly and severally liable, together with Naida Allarde and Bernardo Giangrosso, to disgorge to the Commission $215,790.00 obtained as a result of its non-compliance with Ontario securities law, to be allocated to or for the benefit of third parties, pursuant to subsection 3.4(2)(b) of the *Act*;
- an order making K&S, jointly and severally liable, together with Kevin Persaud, to disgorge to the Commission $90,000.00 obtained as a result of its non-compliance with Ontario securities law, to be allocated to or for the benefit of third parties, pursuant to subsection 3.4(2)(b) of the *Act*; and
- an order requiring payment by K&S on a joint and several basis, together with Kevin Persaud, of $11,121.25 for costs incurred in the hearing of this matter.

(B) The Individual Respondents

- an order that each Individual Respondent cease trading in and acquiring securities for a period of 15 years with the exception that, after satisfying all monetary orders, each be permitted to trade securities for the account of a registered retirement savings plan in their name as defined in the *Income Tax Act*, R.S.C. 1985, c.1, as amended (the "***Income Tax Act***");

- an order that any exemptions contained in Ontario securities law do not apply to each Individual Respondent for a period of 15 years except as required to make trades or acquire securities in accordance with the exception provided above;

- an order that each Individual Respondent be reprimanded;

- an order that each Individual Respondent resign all positions held as a director or officer of any issuer, registrant or investment fund manager;

- an order that each Individual Respondent is permanently prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager;

- an order requiring each Individual Respondent to pay an administrative penalty of $75,000, to be allocated to or for the benefit of third parties, pursuant to subsection 3.4(2)(b) of the *Act*;

- an order making Naida Allarde, Bernardo Giangrosso and Simply Wealth jointly and severally liable to disgorge to the Commission $215,790.00 obtained as a result of their non-compliance with Ontario securities law, to be allocated to or for the benefit of third parties, pursuant to subsection 3.4(2)(b) of the *Act*;

- an order making Maxine Lobban and Wayne Lobban jointly and severally liable to disgorge to the Commission $120,427.50 obtained as a result of their non-compliance with Ontario securities law, to be allocated to or for the benefit of third parties, pursuant to subsection 3.4(2)(b) of the *Act*,

- an order making Kevin Persaud and K&S jointly and severally liable to disgorge to the Commission $90,000.00 obtained as a result of their non-compliance with Ontario securities law, to be allocated to or for the benefit of third parties, pursuant to subsection 3.4(2)(b) of the *Act*; and

- an order requiring payment by Kevin Persaud, jointly and severally with K&S, of $11,121.25 for costs incurred in the hearing of this matter.

III. RESPONDENTS' SUBMISSIONS ON SANCTIONS

(a) Bernardo Giangrosso

[6] Mr. Giangrosso began by stating that he and Ms. Allarde had no realisation of what was happening in Gold-Quest and what was going to happen. After hearing the description of Gold-Quest's success, they right away thought about their relatives and the people they went to church with. Their intention was to help people and not to harm people.

[7] Mr. Giangrosso said he and Ms. Allarde had no idea how they would pay the disgorgement amount and penalty sought by Staff. He pointed out that they never forced anybody to invest in Gold-Quest, they just shared information. He concluded by saying that they don't even own their own car and live in rented premises. Mr. Giangrosso said he would like to be able to have an opportunity to go into business and not be forbidden to do so by a lifetime ban.

(b) Naida Allarde

[8] Ms. Allarde stated she was an insurance agent when she met the people from Gold-Quest in a seminar. She joined with her husband in submitting that there was no intention to hurt anybody and they had no idea that people were going to get hurt. She felt it was unfair that they were charged and were being asked to pay since their name was already tainted. Ms. Allarde stated she is not able to renew her insurance agent license because there is no liability insurance available that would cover her errors and omissions, as a result of the allegations against her. She was particularly concerned about the 15 years cease trading order, submitting that it was enough that their name was tainted plus the money that they would be ordered to pay.

(c) Maxine Lobban

[9] Ms. Lobban began by stating that the events of the last four years have left her and Mr. Lobban financially embarrassed. They could not afford legal counsel. They never understood that they were involved in an illegal distribution of securities and trading without registration.

[10] Ms. Lobban told the panel that she and her husband came to Canada for Jamaica in late 1999. They both became registered with the Commission to sell RESPs. The reality that they were involved in a Ponzi scheme shocked the couple. They were devastated to know that they deprived not only themselves, but people they loved, of monies they worked so hard for. The postings on the World Wide Web have caused irreparable damage to their character, their careers and their ability to earn.

[11] Ms. Lobban described how she met Kevin Persaud's father, who became the couple's mentor. She described the seminar where she met the proponents of the Gold-Quest investment scheme. They learned there was no issue with regards to licensing as Gold-Quest's currency program fell under what was described as a family-and-friends exemption. Persuaded by the initial success of the program, the Lobban's invested more funds in Gold-Quest as well as recommending the program to other friends and fellow church members. Ms. Lobban concluded by saying her intention was to present the couple's story because the other side of this story criminalized their character. The description of what they did in the statement of allegations was far removed from what Ms. Lobban described as how the couple represented themselves to the public in the last 20 years. She asked for leniency.

(d) Wayne Lobban

[12] Mr. Lobban told the panel he was licensed as an insurance broker and his background was in accounting before he came to Canada. He regrets very much that he and his wife have harmed people whom they really wanted to help. He states that their financial situation is grave, if not precarious. He understood from Staff that their financial situation should not be a mitigating factor in the sanctions to be imposed, but hopes that the panel keeps it in mind when arriving at a decision. In closing, he repeated his regret for the harm done to others.

(e) Kevin Persaud

[13] Kevin Persaud was represented at the sanctions hearing by his counsel, Mr. Peter Carey, who called Mr. Persaud to testify.

[14] Mr. Persaud told the panel he was 19 when he met the principals of Gold-Quest. He had completed high school and had done a year and a half at the University of Ontario Institute of Technology. He then dropped out and began working with his father who had a number of financial interests. After his connection with Gold-Quest launched and before it crashed, Mr. Persaud was in the second phase of the Canadian Securities Course and he was also studying to get a Certified Financial Planner designation.

[15] After the release of allegations in this matter and given the possibility of being banned from trading securities, he stopped both courses because of their cost.

[16] Currently, Mr. Persaud is attending Ryerson University in Business Management and Economics. He is living at his mother's home with his fiancée and son. He works at Costco on a part-time basis and makes approximately $18,000 a year. He told the panel that the $90,000 he received from Gold-Quest, after taxes, was placed in another investment where he lost the entire amount. He completed his testimony by saying how much he regretted his participation in Gold-Quest, particularly having signed up his mother who lost $20,000.

[17] In cross-examination Staff counsel asked Mr. Persaud if he had invested $20,000 in Land Banc of Canada; he replied that that sum was his father's money. Mr. Persaud was also asked if he had invested approximately $150,000 in Horizon FX. Mr. Persaud confirmed that he had done so with his personal funds a month or two before Gold-Quest. After his involvement in Gold-Quest, Mr. Persaud invested $50,000 in Winsome Trust. Staff put to Mr. Persaud that by the time he was 22 years old he had made investments in excess of $300,000 and Mr. Persaud agreed. Mr. Persaud confirmed that it was his intention to pay to the Commission the sum of $90,000 representing what he earned by way of commission from Gold-Quest.

[18] In re-examination Mr. Carey produced a bank draft for $15,000 in partial payment of the $90,000 in earned commissions from Gold-Quest.

[19] In submissions on behalf of Mr. Persaud, his counsel acknowledged that there should be an order for disgorgement of $90,000.

[20] Mr. Carey submits that the appropriate time period for a ban on trading securities would be one year. Mr. Carey noted that Mr. Persaud was not the mastermind of the Gold-Quest scheme, he was only 19 years old at the time and has shown genuine remorse. Mr. Carey points out that the hearing is already had an effect on Mr. Persaud's livelihood. The more sanctions that are added to his record, the more difficult his road becomes for him to successfully pursue a career in capital markets. Mr. Carey stressed that Mr. Persaud's involvement with Gold-Quest was very brief, what he described as "one-time affair." He added that the evidence at the hearing on the merits was to the effect that when Mr. Persaud became aware there was some doubt about Gold-Quest, he immediately told everyone.

[21] Mr. Carey submitted further that there should be an immediate carve-out to permit Mr. Persaud to trade for an RRSP, a TFSA and an RESP.

[22] On the matter of costs, Mr. Carey stressed that Mr. Persaud had been completely cooperative with the Commission. An Agreed Statement of Facts substantially shortened the hearing. The only new evidence that was introduced was the evidence of Mr. Persaud in support of his view that he was not liable for furthering illegal trade. Mr. Carey says that Mr. Persaud should not be penalized for attempting to get the facts out that would support him in either a finding of liability or with respect to an appropriate sanction.

[23] Finally, Mr. Carey submits that Mr. Persaud should not receive an administrative penalty of $75,000 since that sort of penalty is directed at specifically deterring Mr. Persaud and generally deterring others of a like mind, which was unnecessary in this case. Mr. Carey also objected to a permanent prohibition of Mr. Persaud becoming or acting as a director or officer of any issuer because he is now 26 years old and starting his career.

IV. THE APPLICABLE LAW

(A) Approach to the Imposition of Sanctions

[24] In making an order in the public interest under section 127 of the *Act*, the Commission's jurisdiction should be exercised in a protective and preventative manner. The Commission's purpose in making such orders is to "protect the public interest by removing from the capital markets those whose past conduct is so abusive as to warrant apprehension of future conduct detrimental to the integrity of the capital markets" (*Re Committee for the Equal Treatment of Asbestos Minority Shareholders v. Ontario (Securities Commission)*, [2001] 2 S.C.R. 132 at para. 43, citing *Re Mithras Management Ltd.* (1990), 13 O.S.C.B. 1600 at pp. 4-5 (Q.L.)).

[25] The Commission must ensure that the sanctions imposed in each case are proportionate to the circumstances and conduct of each of the particular respondents. Some of the factors the Commission has considered in determining appropriate sanctions include:

(a) the seriousness of the allegations;

(b) the respondent's experience in the marketplace;

(c) the level of a respondent's activity in the marketplace;

(d) whether or not there has been recognition of the seriousness of the improprieties;

(e) whether or not the sanctions imposed may serve to deter not only those involved in the case being considered, but any like-minded people from engaging in similar abuses of the capital markets;

(f) any mitigating factors;

(g) the size of any profit made or loss avoided from the illegal conduct;

(h) the size of any financial sanctions or voluntary payment when considering other factors;

(i) the effect any sanction might have on the livelihood of a respondent;

(i) the restraint any sanctions may have on the ability of a respondent to participate

without check in the capital markets;

(k) the reputation and prestige of the respondent;

(1) the shame or financial pain that any sanction would reasonably cause to the respondent; and

(m) the remorse of the respondent.

(*Re Belteco Holdings Inc.* (1998), 21 O.S.C.B. 7743 at paras. 23-26; *Re M.C.J.C. Holdings Inc.* (2002), 25 O.S.C.B. 1133 at paras. 18-19 and 26).

[26] The Commission may also consider general and specific deterrence in crafting appropriate sanctions. The weight given to general deterrence will vary from case to case and is a matter within the discretion of the Commission (*Re Cartaway Resources Corp.*, [2004] 1 S.C.R. 672 at paras. 60 and 64; *Re Momentas Corp.* (2007), 30 O.S.C.B. 6475 at para. 51).

(B) Application of Factors

[27] I have considered the following factors set out below in arriving at the appropriate sanctions to be applied in this matter.

(a) Seriousness of the Conduct

(i) Unregistered Trading

[28] In *Limelight*, the panel found that:

> The requirement that an individual be registered in order to trade in securities is an essential element of the regulatory framework with the purpose of achieving the regulatory objectives of the *Act*. Registration serves an important gatekeeping mechanism ensuring that only properly qualified and suitable individuals are permitted to be registrants and to trade with or on behalf of the public. Through the registration process, the Commission attempts to ensure that those who trade in securities meet the applicable proficiency requirements, are of good character, satisfy the appropriate ethical standards and comply with the *Act*.
>
> (*Re Limelight Entertainment Inc.* (2008), 31 O.S.C.B. 1727 ("***Limelight***") at para. 135)

[29] Staff submits that the nature of the unregistered trading conducted by the respondents reflects the seriousness of the respondents' conduct. I agree. However, "the nature of the unregistered trading" was such as to call for lighter sanctions than proposed by Staff. Staff did not develop how the "nature of the unregistered trading" should lead to a conclusion that the acts of the respondents require the imposition of such severe sanctions under these circumstances.

(ii) Illegal Distribution

[30] The prospectus requirement plays an essential role in the protection of investors as the filing of a prospectus with the Commission is fundamental to the protection of the investing public who are contemplating the purchase of securities. The prospectus requirement therefore ensures that prospective investors have sufficient information to ascertain the risk level of their investment and to make informed investment decisions (*Re M P Global Financial Ltd.* (2011), 34 O.S.C.B. 8897 at para. 117, citing *Jones v. F.H. Deacon Hodgson Inc.* (1986), 9 O.S.C.B. 5579; *Re Fist Global Ventures S. A.* (2007), 30 O.S.C.B. 10473 at para. 145).

[31] Staff submits that in failing to provide investors and potential investors with a prospectus and the information therein contained, the respondents deprived investors of a critical source of information about the nature of the investments being made, the risk involved and a thorough explanation of where investor funds would be directed. My comments made in paragraph [29] apply equally to this submission of Staff.

(b) Capital Markets Experience

[32] None of the respondents had experience in capital markets.

[33] All of the respondents profited from their illegal conduct in the form of significant commissions paid by Gold-Quest. As will be developed further in these reasons, that monetary benefit received by the respective respondents must be disgorged.

(c) Awareness of the seriousness of their conduct

[34] All the Individual Respondents demonstrated at the sanctions hearing that they recognized the seriousness of their illegal activities.

(d) Mitigating Factors

[35] All the Individual Respondents sincerely believed they were not doing anything illegal. All the respondents have testified that they believed their activities were not in contravention of the *Act* because they accepted what they were told by the principals at Gold-Quest – that there was a "friends-and-family" exemption from securities regulation. Staff made no submissions that would contradict their evidence. I accept that the respondents were duped by the proponents of the investment scheme.

[36] This conclusion distinguishes the respondents from true fraudsters who embark on a Ponzi scheme, such as the one in this matter, in the full knowledge their activities contravene Ontario securities law. While it must be remembered that a contravention of unregistered trading or illegal distribution does not require a guilty mind nor an intentional breach of the *Act*, nevertheless the absence of any intention to contravene the *Act* can and should be taken into account in considering the appropriate sanctions.

[37] Further, the Simply Wealth Respondents and the Lobban Respondents entered into Agreed Statements of Facts and admitted responsibility for their actions. In doing so, they recognized their misconduct and obviated the need for a full hearing on the merits.

[38] The K&S Respondents also entered into an Agreed Statement of Facts, preserving the rights to make submissions on whether the offences of illegal distribution and failure to file a prospectus had been made out. This reduced the time that would otherwise have spent on the hearing on the merits.

(e) Voluntary Payment

[39] Kevin Persaud made a voluntary acknowledgement that disgorgement should be ordered in the amount of $90,000 and, as reported above, made a payment of $15,000 towards that amount during the sanctions hearing.

(f) Remorse

[40] Mr. Giangrosso, Ms. Allarde and Mr. and Mrs. Lobban all spoke of the remorse they felt over the pain and loss suffered by their families and friends who invested in Gold-Quest through their efforts. They spoke eloquently having come to Canada from abroad and having made their way as newcomers with considerable success. I concluded their distress flowed more from the damage done to their families and friends than that done to themselves. Mr. Persaud's voluntary payment is an indication of his remorse.

(g) Specific and General Deterrence

[41] Staff submits that the proposed sanctions are proportionate to the respondents' conduct and will serve as a specific deterrent. An order removing the respondents from the capital markets for a significant period of time, requiring disgorgement of all funds obtained as a result of their illegal conduct, and requiring the respondents to pay administrative penalties to the extent warranted will send a message to both the respondents and like-minded individuals that such conduct will result in meaningful sanctions by the Commission.

[42] I disagree with Staff's submission that the proposed sanctions "are proportionate to the respondent's conduct. As noted earlier in these reasons, the respondents were not the proponents of the investment scheme but were rather duped by the promoters of Gold-Quest to embark upon activity contrary to the *Act*. In the discussion that follows on specific sanctions, covering market bans, disgorgement, administrative penalty and costs, my findings will be based upon my view that the need for specific and general deterrence in this matter for all the respondents is at the low end of the scale.

[43] Staff's written submissions cited *Re White* (2010), 33 O.S.C.B. 8893 ("***White***"). In support of an administrative penalty of $75,000, the panel in *White* found that the respondent, White, was directly involved in creating the investment scheme; that White controlled the company, which ran an investment club and charged membership fees to investors; he promoted the investment scheme and his videos and on his company website; and he forwarded investment funds to accounts controlled by another respondent, Qureshi. The panel found that Qureshi was directly involved in creating the investment scheme; gave presentations at White's company meetings held to solicit investors; was directly involved in the investment programs finances; played a predominant role in the actual investment of the funds; and carried out the trading of investor funds thereby losing USD $500,000 in forex (paras. 52 and 53). This conduct was, I find, more serious than the activity of the respondents in this matter.

[44] In support of its submission on administrative penalties, Staff cited *Re Sabourin* (2010), 33 O.S.C.B. 5299 ("***Sabourin***"). In *Sabourin* the panel imposed significant administrative penalties ranging from $100,000 to $150,000 on four respondents whom the panel found, as former registrants, knew or ought to have known they were selling securities in breach of the *Act* (paras. 78-84). That is not the case with the respondents in this matter. Some *Sabourin* respondents continued to sell investments after becoming aware that the Commission was investigating; others sold investments while still employed with a registrant and not entitled to do so.

(C) Market Bans

[45] Staff seek significant market bans of 15 years for each of the respondents. In support of the submission, Staff cites *White*, above. I have already drawn a distinction between the conduct of the respondents in *White* and the conduct of the respondents in this matter to demonstrate that the *White* respondents' contraventions of the *Act* were more egregious.

[46] Staff also cited *Re Ochnik* (2006), 29 O.S.C.B. 3929. Mr. Ochnik was described (para. 93) as having engaged in "misinformation and prevarication". He was also found to have engaged in "unfair, improper or fraudulent practices" (para. 109).

[47] In the absence of fraud on the part of the respondents, I find that an appropriate period for the imposition of market bans to be five years for each of the respondents. There will be a "carve-out" for personal trading to become active after full payment of any order for disgorgement, administrative penalties and costs, for the Individual Respondents.

(D) Disgorgement

[48] Applying the principles in *Re Limelight Entertainment Inc.* (2008), 31 O.S.C.B. 12030 ("***Limelight Sanctions***") at para. 52, I accept Staff's submissions that the respondents should disgorge the entire amount they realised by way of commissions from the Gold-Quest scheme, in the amounts identified in paragraph [4] of these reasons.

(E) Administrative Penalty

[49] The Commission has held that an administrative penalty should be of a magnitude sufficient to ensure effective specific and general deterrence. Factors to be considered in determining an appropriate administrative penalty include the following: the scope and seriousness of a respondent's misconduct; whether there were multiple and/or repeated breaches of the *Act*; whether the respondent realized any profit as a result of his or her misconduct; the amount of money raised from investors; the harm caused to investors; and the level if administrative penalties imposed in other cases (*Re Rowan* (2010), 33 O.S.C.B. 91 at para. 67; *Limelight Sanctions*, above at paras. 67 and 71). I find it appropriate that each of the Individual Respondents pay an administrative penalty of $15,000.

[50] The rationale for specific deterrence is that the imposition of a penalty will cause the wrongdoer to think twice before reoffending. I weigh the possibility of these respondents reoffending to be on the low side, given the disgorgement ordered, coupled with the loss of reputation described in their testimony.

[51] The rationale for general deterrence is that the imposition of a penalty will dissuade other persons of a like mind as that of the respondents from committing similar illegal acts. When the actions of the respondents were, as I have concluded, based on their perception that they were within the law, it is difficult to appreciate how other like-minded persons could be dissuaded from similar activity. All that can be said is that a penalty will serve as a warning to proceed carefully, particularly where a proposal can be described as "too good to be true." Almost always, such a proposal is neither good nor true.

[52] I find it appropriate that each of the Individual Respondents pay an administrative penalty of $15,000.

(F) COSTS

[53] I accept Staff's conservative estimate of costs, supported by a Bill of Costs, time summary and affidavit. Staff sought costs only for the merits hearing, the majority of which was taken up with Mr. Persaud's defence to the allegations. A costs order is not intended to penalize the respondent but to allow Staff to recuperate costs. The costs order is limited to Mr. Persaud since K&S was not represented in this matter.

V. CONCLUSION

[54] I find that it is in the public interest to make the following orders against the respondents pursuant to subsections 127(1) and 127.1 of the *Act*:

1. With respect to Simply Wealth:

    (a) pursuant to clause 2 of subsection 127(1) of the *Act*, Simply Wealth is prohibited from trading in securities for five years;

    (b) pursuant to clause 2.1 of subsection 127(1) of the *Act*, Simply Wealth is prohibited from acquiring securities for five years;

    (c) pursuant to clause 3 of subsection 127(1) of the *Act*, exemptions in Ontario securities law do not apply to Simply Wealth for five years; and

    (d) pursuant to clause 10 of subsection 127(1) of the *Act*, Simply Wealth shall jointly and severally together with Ms. Allarde and Mr. Giangrosso, disgorge to the Commission $215,790 obtained as a result of its non-compliance with Ontario securities law, which shall be designated for allocation or for use by the Commission pursuant to subsection 3.4(2)(b) of the *Act*.

2. With respect to K&S:

   (a) pursuant to clause 2 of subsection 127(1) of the *Act*, K&S is prohibited from trading in securities for five years;

   (b) pursuant to clause 2.1 of subsection 127(1) of the *Act*, K&S is prohibited from acquiring securities for five years;

   (c) pursuant to clause 3 of subsection 127(1) of the *Act*, exemptions in Ontario securities law do not apply to K&S for five years; and

   (d) pursuant to clause 10 of subsection 127(1) of the *Act*, K&S shall, jointly and severally together with Mr. Persaud, disgorge to the Commission $90,000 obtained as a result of its non-compliance with Ontario securities law, which shall be designated for allocation or for use by the Commission pursuant to subsection 3.4(2)(b) of the *Act*.

3. With respect to Naida Allarde:

   (a) pursuant to clause 2 of subsection 127(1) of the *Act*, Ms. Allarde is prohibited from trading in securities for a period of five years, except that, once Ms. Allarde has fully satisfied the terms of subparagraphs 3(g) and (h) below, she may trade in securities for the account of any registered retirement savings plans and/or any registered retirement income funds as defined in the *Income Tax Act* ("**RRSPs**") in which she and/or her spouse have sole legal and beneficial ownership, provided that:

      (i) the securities traded are listed and posted for trading on the Toronto Stock Exchange, the New York Stock Exchange or NASDAQ (or their successor exchanges) or are issued by a mutual fund that is a reporting issuer;

      (ii) she does not own legally or beneficially, in the aggregate or together with her spouse, more than one percent of the outstanding securities of the class or series of the class in question; and

      (iii) she carries out any permitted trading through a registered dealer, which dealer must be given a copy of this order, and through accounts opened in her name only and must close any trading accounts that are not in her name only;

   (b) pursuant to clause 2.1 of subsection 127(1) of the *Act*, Ms. Allarde is prohibited from acquiring securities for a period of five years, except that, once Ms. Allarde has fully satisfied the terms of subparagraphs 3(g) and (h), below, she may trade securities for the account of any RRSPs in which she and/or her spouse have sole legal and beneficial ownership, on and subject to the conditions referred to in subparagraphs 3(a)(i) to (iii) of this order;

   (c) pursuant to clause 3 of subsection 127(1) of the *Act*, exemptions in Ontario securities law do not apply to Ms. Allarde for a period of five years, except as necessary to permit the trading authorized under subparagraphs 3(a) or (b) of this order;

   (d) pursuant to clause 6 of subsection 127(1) of the *Act*, Ms. Allarde is reprimanded;

   (e) pursuant to clauses 7, 8.1 and 8.3 of subsection 127(1) of the *Act*, Ms. Allarde is ordered to resign any positions she holds as a director or officer of any issuer, registrant or investment fund manager;

   (f) pursuant to clauses 8, 8.2 and 8.4 of subsection 127(1) of the *Act*, Ms. Allarde is prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager for five years;

   (g) pursuant to clause 9 of subsection 127(1) of the *Act*, Ms. Allarde shall pay to the Commission an administrative penalty of $15,000 as a result of her non-compliance with Ontario securities law;

   (h) pursuant to clause 10 of subsection 127(1) of the *Act*, Ms. Allarde shall, jointly and severally together with Simply Wealth and Mr. Giangrosso, disgorge to the Commission $215,790.00 obtained as a result of her non-compliance with Ontario securities law; and

   (i) the amounts referred to in each of subparagraphs 3(g) and (h) of this order shall be designated for allocation or for use by the Commission pursuant to subsection 3.4(2)(b) of the *Act*.

4. With respect to Bernardo Giangrosso:

   (a) pursuant to clause 2 of subsection 127(1) of the *Act*, Mr. Giangrosso is prohibited from trading in securities for a period of five years, except that, once Mr. Giangrosso has fully satisfied the terms of subparagraphs 4(g) and (h), below, he may trade securities for the account of any RRSPs in which he and/or his spouse have sole legal and beneficial ownership, provided that:

      (i) the securities traded are listed and posted for trading on the Toronto Stock Exchange, the New York Stock Exchange or NASDAQ (or their successor exchanges) or are issued by a mutual fund that is a reporting issuer;

      (ii) he does not own legally or beneficially, in the aggregate or together with his spouse, more than one percent of the outstanding securities of the class or series of the class in question; and

      (iii) he carries out any permitted trading through a registered dealer, which dealer must be given a copy of this order, and through accounts opened in his name only and must close any trading accounts that are not in his name only;

   (b) pursuant to clause 2.1 of subsection 127(1) of the *Act*, Mr. Giangrosso is prohibited from acquiring securities for a period of five years, except that, once Mr. Giangrosso has fully satisfied the terms of subparagraphs 4(g) and (h), below, he may trade securities for the account of any RRSPs in which he and/or his spouse have sole legal and beneficial ownership, on and subject to the conditions referred to in subparagraphs 4(a)(i) to (iii) of this order;

   (c) pursuant to clause 3 of subsection 127(1) of the *Act*, exemptions in Ontario securities law do not apply to Mr. Giangrosso for a period of five years, except as necessary to permit the trading authorized under subparagraphs 4(a) or (b) of this order;

   (d) pursuant to clause 6 of subsection 127(1) of the *Act*, Mr. Giangrosso is reprimanded;

   (e) pursuant to clauses 7, 8.1 and 8.3 of subsection 127(1) of the *Act*, Mr. Giangrosso is ordered to resign any positions he holds as a director or officer of any issuer, registrant or investment fund manager;

   (f) pursuant to clauses 8, 8.2 and 8.4 of subsection 127(1) of the *Act*, Mr. Giangrosso is prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager for five years;

   (g) pursuant to clause 9 of subsection 127(1) of the *Act*, Mr. Giangrosso shall pay to the Commission an administrative penalty of $15,000 as a result of his non-compliance with Ontario securities law;

   (h) pursuant to clause 10 of subsection 127(1) of the *Act*, Mr. Giangrosso shall, jointly and severally together with Simply Wealth and Ms. Allarde, disgorge to the Commission $215,790.00 obtained as a result of his non-compliance with Ontario securities law; and

   (i) the amounts referred to in each of subparagraphs 4(g) and (h) of this order shall be designated for allocation or for use by the Commission pursuant to subsection 3.4(2)(b) of the *Act*.

5. With respect to Kevin Persaud:

   (a) pursuant to clause 2 of subsection 127(1) of the *Act*, Mr. Persaud is prohibited from trading in securities for a period of five years, except that, once Mr. Persaud has fully satisfied the terms of subparagraphs 5(g), (h) and (i), below, he may trade securities for the account of any RRSPs, registered education savings plan or tax-free savings account as defined in the *Income Tax Act* in which he and/or his spouse have sole legal and beneficial ownership, provided that:

      (i) the securities traded are listed and posted for trading on the Toronto Stock Exchange, the New York Stock Exchange or NASDAQ (or their successor exchanges) or are issued by a mutual fund that is a reporting issuer;

      (ii) he does not own legally or beneficially, in the aggregate or together with his spouse, more than one percent of the outstanding securities of the class or series of the class in question; and

(iii) he carries out any permitted trading through a registered dealer, which dealer must be given a copy of this order, and through accounts opened in his name only and must close any trading accounts that are not in his name only;

(b) pursuant to clause 2.1 of subsection 127(1) of the *Act*, Mr. Persaud is prohibited from acquiring securities for a period of five years, except that, once Mr. Persaud has fully satisfied the terms of subparagraphs 5(g), (h) and (i), he may trade securities for the account of any RRSPs in which he and/or his spouse have sole legal and beneficial ownership, on and subject to the conditions referred to in subparagraphs 5(a)(i) to (iii) of this order;

(c) pursuant to clause 3 of subsection 127(1) of the *Act*, exemptions in Ontario securities law do not apply to Mr. Persaud for a period of five years, except as necessary to permit the trading authorized under subparagraphs 5(a) or (b) of this order;

(d) pursuant to clause 6 of subsection 127(1) of the *Act*, Mr. Persaud is reprimanded;

(e) pursuant to clauses 7, 8.1 and 8.3 of subsection 127(1) of the *Act*, Mr. Persaud is ordered to resign any positions he holds as a director or officer of any issuer, registrant or investment fund manager;

(f) pursuant to clauses 8, 8.2 and 8.4 of subsection 127(1) of the *Act*, Mr. Persaud is prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager for five years;

(g) pursuant to clause 9 of subsection 127(1) of the *Act*, Mr. Persaud shall pay to the Commission an administrative penalty of $15,000 as a result of his non-compliance with Ontario securities law;

(h) pursuant to clause 10 of subsection 127(1) of the *Act*, Mr. Persaud shall, jointly and severally together with K&S, disgorge to the Commission $90,000.00 obtained as a result of his non-compliance with Ontario securities law;

(i) pursuant to section 127.1 of the *Act*, Mr. Persaud shall pay costs incurred by the Commission in relation to the hearing of this matter in the amount of $11,121.25; and

(j) the amounts referred to in each of subparagraphs 5(g) and (h) of this order shall be designated for allocation or for use by the Commission pursuant to subsection 3.4(2)(b) of the *Act*.

6. With respect to Maxine Lobban:

(a) pursuant to clause 2 of subsection 127(1) of the *Act*, Ms. Lobban is prohibited from trading in securities for a period of five years, except that, once Ms. Lobban has fully satisfied the terms of subparagraphs 6(g) and (h), below, she may trade securities for the account of any RRSPs in which she and/or her spouse have sole legal and beneficial ownership, provided that:

(i) the securities traded are listed and posted for trading on the Toronto Stock Exchange, the New York Stock Exchange or NASDAQ (or their successor exchanges) or are issued by a mutual fund that is a reporting issuer;

(ii) she does not own legally or beneficially, in the aggregate or together with her spouse, more than one percent of the outstanding securities of the class or series of the class in question; and

(iii) she carries out any permitted trading through a registered dealer, which dealer must be given a copy of this order, and through accounts opened in her name only and must close any trading accounts that are not in her name only;

(b) pursuant to clause 2.1 of subsection 127(1) of the *Act*, Ms. Lobban is prohibited from acquiring securities for a period of five years, except that, once Ms. Lobban has fully satisfied the terms of subparagraphs 6(g) and (h), below, she may trade securities for the account of any RRSPs in which she and/or her spouse have sole legal and beneficial ownership, on and subject to the conditions referred to in subparagraphs 6(a)(i) to (iii) of this order;

(c) pursuant to clause 3 of subsection 127(1) of the *Act*, exemptions in Ontario securities law do not apply to Ms. Lobban for a period of five years, except as necessary to permit the trading authorized under subparagraphs 6(a) or (b) of this order;

(d) pursuant to clause 6 of subsection 127(1) of the *Act*, Ms. Lobban is reprimanded;

(e) pursuant to clauses 7, 8.1 and 8.3 of subsection 127(1) of the *Act*, Ms. Lobban is ordered to resign any positions she holds as a director or officer of any issuer, registrant or investment fund manager;

(f) pursuant to clauses 8, 8.2 and 8.4 of subsection 127(1) of the *Act*, Ms. Lobban is prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager for five years;

(g) pursuant to clause 9 of subsection 127(1) of the *Act*, Ms. Lobban shall pay to the Commission an administrative penalty of $15,000 as a result of her non-compliance with Ontario securities law;

(h) pursuant to clause 10 of subsection 127(1) of the *Act*, Ms. Lobban shall, jointly and severally together with Wayne Lobban, disgorge to the Commission $120,427.50 obtained as a result of her non-compliance with Ontario securities law; and

(i) the amounts referred to in each of subparagraphs 6(g) and (h) of this order shall be designated for allocation or for use by the Commission pursuant to subsection 3.4(2)(b) of the *Act*.

7. With respect to Wayne Lobban:

(a) pursuant to clause 2 of subsection 127(1) of the *Act*, Mr. Lobban is prohibited from trading in securities for a period of five years, except that, once Mr. Lobban has fully satisfied the terms of subparagraphs 7(g) and (h), below, he may trade securities for the account of any RRSPs in which he and/or his spouse have sole legal and beneficial ownership, provided that:

(i) the securities traded are listed and posted for trading on the Toronto Stock Exchange, the New York Stock Exchange or NASDAQ (or their successor exchanges) or are issued by a mutual fund that is a reporting issuer;

(ii) he does not own legally or beneficially, in the aggregate or together with his spouse, more than one percent of the outstanding securities of the class or series of the class in question; and

(iii) he carries out any permitted trading through a registered dealer, which dealer must be given a copy of this order, and through accounts opened in his name only and must close any trading accounts that are not in his name only);

(b) pursuant to clause 2.1 of subsection 127(1) of the *Act*, Mr. Lobban is prohibited from acquiring securities for a period of five years, except that, once Mr. Lobban has fully satisfied the terms of subparagraphs 7(g) and (h), he may trade securities for the account of any RRSPs in which he and/or his spouse have sole legal and beneficial ownership, on and subject to the conditions referred to in subparagraphs 7(a)(i) to (iii) of this order;

(c) pursuant to clause 3 of subsection 127(1) of the *Act*, exemptions in Ontario securities law do not apply to Mr. Lobban for a period of five years, except as necessary to permit the trading authorized under subparagraphs 7(a) or (b) of this order;

(d) pursuant to clause 6 of subsection 127(1) of the *Act*, Mr. Lobban is reprimanded;

(e) pursuant to clauses 7, 8.1 and 8.3 of subsection 127(1) of the *Act*, Mr. Lobban is ordered to resign any positions he holds as a director or officer of any issuer, registrant or investment fund manager;

(f) pursuant to clauses 8, 8.2 and 8.4 of subsection 127(1) of the *Act*, Mr. Lobban is prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager for five years;

(g) pursuant to clause 9 of subsection 127(1) of the *Act*, Mr. Lobban shall pay to the Commission an administrative penalty of $15,000 as a result of his non-compliance with Ontario securities law;

(h) pursuant to clause 10 of subsection 127(1) of the *Act*, Mr. Lobban shall, jointly and severally together with Maxine Lobban, disgorge to the Commission $120,427.50 obtained as a result of his non-compliance with Ontario securities law; and

(i) the amounts referred to in each of subparagraphs 7(g) and (h) of this order shall be designated for allocation or for use by the Commission pursuant to subsection 3.4(2)(b) of the *Act*.

[55] I will issue a separate order giving effect to my decisions on sanctions and costs.

Dated this 9th day of January, 2013.

"James D. Carnwath"

3.1.2 Bunting & Waddington Inc. et al.

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

AND

IN THE MATTER OF
BUNTING & WADDINGTON INC., ARVIND SANMUGAM,
JULIE WINGET and JENIFER BREKELMANS

SETTLEMENT AGREEMENT BETWEEN
STAFF OF THE ONTARIO SECURITIES COMMISSION
AND JENIFER BREKELMANS

PART I - INTRODUCTION

1. By Notice of Hearing dated March 22, 2012, the Ontario Securities Commission (the "Commission") announced that it proposed to hold a hearing, commencing on April 16, 2012, to consider whether, pursuant to sections 127 and 127.1 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act"), it is in the public interest to make orders, as specified therein, against Bunting & Waddington Inc. ("Bunting & Waddington"), Arvind Sanmugam ("Sanmugam"), Julie Winget ("Winget") and Jenifer Brekelmans ("Brekelmans"). The Notice of Hearing was issued in connection with the allegations as set out in the Statement of Allegations of Staff of the Commission (Staff") dated March 22, 2012 (the "Statement of Allegations").

2. The Commission will issue a Notice of Hearing to announce that it will hold a hearing to consider whether, pursuant to section 127 of the Act, it is in the public interest for the Commission to approve this Settlement Agreement between Staff and Brekelmans (the "Settlement Agreement"), and to make certain orders in respect of Brekelmans.

PART II – JOINT SETTLEMENT RECOMMENDATION

3. Staff agree to recommend settlement of the proceeding initiated by the Notice of Hearing against Brekelmans in accordance with the terms and conditions set out below. Brekelmans consents to the making of an order against her in the form attached as Schedule "A" on the basis of the facts set out below.

PART III – AGREED FACTS

Background

4. Brekelmans is a resident of Thamesford, Ontario, and has never been registered with the Commission in any capacity.

5. After commencing a personal relationship with Sanmugam in or around September, 2005, Brekelmans was offered employment with Sanmugam and Bunting & Waddington. At this time, Brekelmans was completely unsophisticated and had had no experience or training in the capital markets.

6. Between approximately July 2006 and June 2010 (the "Material Time"), Brekelmans was an employee of Bunting & Waddington, a company controlled by Sanmugam, and she also worked for other companies incorporated and/or controlled by Sanmugam.

7. Throughout the Material Time, Brekelmans reported solely to Sanmugam and took direction solely from him. At no time did Brekelmans exercise any control or authority over Bunting & Waddington or any other company incorporated by and/or controlled by Sanmugam.

Bunting & Waddington Inc.

8. Sanmugam was at all times the directing mind of Bunting & Waddington, and of the other companies he controlled and/or incorporated.

9. Bunting and Waddington held itself out as providing "market commentary" to its clients, who are investors located in Ontario, other provinces in Canada, and the United States (the "Investors").

10. Sanmugam directed Investors to open "trading accounts with margins and options" at an online discount brokerage service (the "Investor Accounts"). Sanmugam exercised control over the Investor Accounts in two ways:

(a) Investors would provide the login identification and passwords to their trading accounts to Sanmugam and he would execute trades in those accounts, or, through Brekelmans, cause trades to be executed in those accounts; or

(b) Sanmugam would direct Investors or, through Brekelmans, cause Investors to be directed to execute specific trades within their accounts.

11. During the Material Time, Brekelmans was aware that Sanmugam represented to some or all of the Investors that:

(a) they could expect to earn a monthly return of $8,000 on a total investment of $100,000, and, provided this 8% monthly return was achieved in any given month, Investors would pay Bunting & Waddington a monthly retainer of $3,500;

(b) he was a successful trader;

(c) he had over 75 advisors working for him at Bunting & Waddington;

(d) Bunting & Waddington's market commentators were highly experienced and each had a proven track record of generating high rates of return; and

(e) Investors would always retain full control over their invested funds.

12. During the Material Time, Sanmugam was the only market commentator or advisor from whom Brekelmans received trading instructions and the only market commentator or advisor Brekelmans met.

Brekelmans' trading and advising activity

13. Under Sanmugam's direction, Brekelmans traded in securities in some of the Investor Accounts and advised some of the Investors with respect to trading in specific securities.

14. Sanmugam instructed Brekelmans to send emails to some Investors with detailed instructions to buy and/or sell certain securities on certain days at specific prices. Brekelmans would comply with these instructions by sending these emails either under her own name using the email address jb.bunting.waddington@rogers.com, under the name Katie J. using the email address kj.bunting.waddington@rogers.com or under Sanmugam's name.

15. Sanmugam directed Brekelmans to input the Investors' trading data into spreadsheets (the "Spreadsheets") which recorded the Investors' profits and losses. Sanmugam used the Spreadsheets to determine whether or not he had achieved an 8% return in a given month, and consequently whether or not the Investor was required to pay the monthly retainer of $3,500 in a given month. Sanmugam instructed Brekelmans to email the Spreadsheets to the Investors.

16. On Sanmugam's instructions, Brekelmans also kept records of the Investors' trades in notebooks and on whiteboards in the Bunting & Waddington office.

17. On occasion, Sanmugam sent Brekelmans to help some of the Investors set up their online trading accounts.

18. During the Material Time, Sanmugam is the only person from whom Brekelmans received instructions in respect of trading and/or advising in securities, and in respect of communicating with the Investors.

19. In March 2006, on Sanmugam's instructions, Brekelmans began to draw down on a line of credit which Sanmugam had directed her to obtain. He accessed these funds for his own personal use and for Bunting & Waddington purposes, including to purchase a vehicle to be used for Bunting & Waddington business. Sanmugam also accessed funds from Brekelmans' line of credit to partially reimburse at least one Investor.

20. Sanmugam convinced Brekelmans' parents and other family members to invest in the Bunting & Waddington scheme. Brekelmans was duped into believing that Sanmugam was the experienced and successful investor he portrayed himself to be. Brekelmans' family members have lost virtually all of their monies invested with Sanmugam.

21. Sanmugam exercised complete control over every aspect of Brekelmans' life, including her living arrangements. Brekelmans felt powerless to extricate herself from Sanmugam's control.

22. For her work in respect of Bunting & Waddington and other corporate entities controlled by Sanmugam, Brekelmans was paid sporadically and made little profit from her activities.

Sanmugam's criminal conviction

23. On September 5, 2012, in the Superior Court of Justice, Sanmugam pleaded guilty to and was convicted of 3 counts of fraud over $5,000 contrary to s. 380(1)(a) of the *Criminal Code*, R.S.C., 1985, c. C-46 in respect of his conduct arising from the facts in this matter. Brekelmans cooperated with the police investigators and the Crown prosecutors.

24. On November 9, 2012, Sanmugam was sentenced to a term of imprisonment of five years and was ordered to pay restitution of over $1,000,000.00.

PART IV – CONDUCT CONTRARY TO THE PUBLIC INTEREST

25. By engaging in the conduct described above, Brekelmans admits and acknowledges that she contravened Ontario securities law in the following ways:

(a) Trading and engaging in or holding herself out as engaging in the business of trading in securities without being registered to do so and without an exemption from the dealer registration requirement, contrary to subsection 25(1)(a) of the Act as that section existed at the time the conduct at issue commenced in July 2006, and contrary to subsection 25(1) of the Act as subsequently amended on September 28, 2009;

(b) Advising and engaging in or holding herself out as engaging in the business of advising with respect to investing in, buying or selling securities without being registered to do so and without an exemption from the advisor registration requirement, contrary to subsection 25(1)(c) of the Act as that section existed at the time the conduct at issue commenced in July 2006, and contrary to subsection 25(3) of the Act as subsequently amended on September 28, 2009.

26. Brekelmans admits and acknowledges that she acted contrary to the public interest by contravening Ontario securities law as set out in sub-paragraphs 25(a) and (b) above.

PART V – TERMS OF SETTLEMENT

27. Brekelmans agrees to the terms of settlement listed below.

28. A) The Commission will make an order, pursuant to subsection 127(1) of the Act, that:

(a) the Settlement Agreement is approved;

(b) trading in any securities by Brekelmans cease for a period of 7 years from the date of the approval of the Settlement Agreement;

(c) the acquisition of any securities by Brekelmans is prohibited for a period of 7 years from the date of the approval of the Settlement Agreement;

(d) any exemptions contained in Ontario securities law do not apply to Brekelmans for a period of 7 years from the date of the approval of the Settlement Agreement;

(e) Brekelmans is prohibited for a period of 7 years from the date of the approval of the Settlement Agreement from becoming or acting as a director or officer of any issuer, registrant, or investment fund manager;

(f) Brekelmans is prohibited for a period of 7 years from the date of the approval of the Settlement Agreement from becoming or acting as a registrant, as an investment fund manager or as a promoter;

(g) Brekelmans shall disgorge to the Commission the amount of $1,500 obtained as a result of her non-compliance with Ontario securities law. The amount of $1,500 disgorged shall be designated for allocation or for use by the Commission, pursuant to subsection 3.4(2)(b) of the Act;

(h) notwithstanding the provision of this order, once Brekelmans has fully satisfied the terms of sub-paragraph (g) above, Brekelmans will be permitted to trade for the account of her registered retirement savings plans as defined in the *Income Tax Act*, R.S.C. 1985, c.1, as amended (the "Income Tax Act") solely through a registered dealer or, as appropriate, a registered dealer in a foreign jurisdiction (which dealer must be given a copy of this order) in (a) any "exchange-traded security" or "foreign exchange-traded security" within the meaning of National Instrument 21-101

provided that she does not own beneficially or exercise control or direction over more than 5 percent of the voting or equity securities of the issuer(s) of any such securities, and (b) any security issued by a mutual fund that is a reporting issuer; and

B) Brekelmans also agrees to cooperate fully with Staff in any proceeding in respect of this matter and undertakes to consent to a regulatory order made by any provincial or territorial securities regulatory authority in Canada containing any or all of the sanctions set out in subparagraphs 28(b) to (f) above.

PART VI – STAFF COMMITMENT

29. If this Settlement Agreement is approved by the Commission, Staff will not initiate any other proceeding under the Act against Brekelmans in relation to the facts set out in Part III herein, subject to the provisions of paragraph 30 below.

30. If this Settlement Agreement is approved by the Commission, and at any subsequent time Brekelmans fails to honour the terms of the Settlement Agreement, Staff reserve the right to bring proceedings under Ontario securities law against Brekelmans based on, but not limited to, the facts set out in Part III herein as well as the breach of the Settlement Agreement.

PART VII – PROCEDURE FOR APPROVAL OF SETTLEMENT

31. Approval of this Settlement Agreement will be sought at a hearing of the Commission scheduled on a date to be determined by the Secretary to the Commission, or such other date as may be agreed to by Staff and Brekelmans for the scheduling of the hearing to consider the Settlement Agreement.

32. Staff and Brekelmans agree that this Settlement Agreement will constitute the entirety of the agreed facts to be submitted at the settlement hearing regarding Brekelmans' conduct, unless the parties agree that further facts should be submitted at the settlement hearing.

33. If this Settlement Agreement is approved by the Commission, Brekelmans agrees to waive all rights to a full hearing, judicial review or appeal of this matter under the Act.

34. If this Settlement Agreement is approved by the Commission, neither party will make any public statement that is inconsistent with this Settlement Agreement or inconsistent with any additional agreed facts submitted at the settlement hearing.

35. Whether or not this Settlement Agreement is approved by the Commission, Brekelmans agrees that she will not, in any proceeding, refer to or rely upon this Settlement Agreement or the settlement negotiations as the basis of any attack on the Commission's jurisdiction, alleged bias or appearance of bias, alleged unfairness or any other remedies or challenges that may otherwise be available.

PART VIII – DISCLOSURE OF SETTLEMENT AGREEMENT

36. If, for any reason whatsoever, this Settlement Agreement is not approved by the Commission or the order attached as Schedule "A" is not made by the Commission:

(a) this Settlement Agreement and its terms, including all settlement negotiations between Staff and Brekelmans leading up to its presentation at the settlement hearing, shall be without prejudice to Staff and Brekelmans; and

(b) Staff and Brekelmans shall be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing on the merits of the allegations in the Notice of Hearing and Statement of Allegations of Staff, unaffected by the Settlement Agreement or the settlement discussions/negotiations.

37. The terms of this Settlement Agreement will be treated as confidential by all parties hereto until approved by the Commission. Any obligations of confidentiality shall terminate upon approval of this Settlement Agreement by the Commission. The terms of the Settlement Agreement will be treated as confidential forever if the Settlement Agreement is not approved for any reason whatsoever by the Commission, except with the written consent of both Brekelmans and Staff or as may be required by law.

PART IX – EXECUTION OF SETTLEMENT AGREEMENT

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

39. A facsimile copy of any signature will be as effective as an original signature.

Signed in the presence of:

"Jeff Brekelmans"
Witness

"Jenifer Brekelmans"
Jenifer Brekelmans

Dated this 29th day of April, 2013

STAFF OF THE ONTARIO SECURITIES COMMISSION

"Tom Atkinson"
Tom Atkinson
Director, Enforcement Branch

Dated this 8th day of May, 2013

Schedule "A"

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

AND

IN THE MATTER OF
BUNTING & WADDINGTON INC., ARVIND SANMUGAM,
JULIE WINGET and JENIFER BREKELMANS

AND

IN THE MATTER OF
A SETTLEMENT AGREEMENT BETWEEN STAFF OF
THE ONTARIO SECURITIES COMMISSION AND
JENIFER BREKELMANS

ORDER
(Subsection 127(1))

WHEREAS on March 22, 2012, the Ontario Securities Commission (the "Commission") issued a Notice of Hearing pursuant to sections 127 and 127.1 (the "Notice of Hearing") of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") in respect of Jenifer Brekelmans ("Brekelmans");

AND WHEREAS Brekelmans entered into a Settlement Agreement with Staff of the Commission dated April _____, 2013 (the "Settlement Agreement") in which Brekelmans agreed to a proposed settlement of the proceeding commenced by the Notice of Hearing, subject to the approval of the Commission;

AND UPON reviewing the Settlement Agreement, the Notice of Hearing and Statement of Allegations of Staff of the Commission dated March 22, 2012, and upon hearing submissions from Brekelmans and from Staff of the Commission;

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

IT IS HEREBY ORDERED THAT:

(a) the Settlement Agreement is approved;

(b) pursuant to paragraph 2 of subsection 127(1) of the Act, trading in any securities by Brekelmans cease for a period of 7 years from the date of the approval of the Settlement Agreement;

(c) pursuant to paragraph 2.1 of subsection 127(1) of the Act, the acquisition of any securities by Brekelmans is prohibited for a period of 7 years from the date of the approval of the Settlement Agreement;

(d) pursuant to paragraph 3 of subsection 127(1) of the Act, any exemptions contained in Ontario securities law do not apply to Brekelmans for a period of 7 years from the date of the approval of the Settlement Agreement;

(e) pursuant to paragraph 8, 8.2 and 8.4, respectively, of subsection 127(1) of the Act, Brekelmans is prohibited for a period of 7 years from the date of the approval of the Settlement Agreement from becoming or acting as a director or officer of any issuer, registrant, or investment fund manager;

(f) pursuant to paragraph 8.5 of subsection 127(1) of the Act, Brekelmans is prohibited for a period of 7 years from the date of the approval of the Settlement Agreement from becoming or acting as a registrant, as an investment fund manager or as a promoter; and,

(g) pursuant to paragraph 10 of subsection 127(1) of the Act, Brekelmans shall disgorge to the Commission the amount of $1,500 obtained as a result of her non-compliance with Ontario securities law. The amount of $1,500 disgorged shall be designated for allocation or for use by the Commission, pursuant to subsection 3.4(2)(b) of the Act;

(h) notwithstanding the provision of this order, once Brekelmans has fully satisfied the terms of sub-paragraph (g) above, Brekelmans will be permitted to trade for the account of her registered retirement savings plans as

defined in the *Income Tax Act*, R.S.C. 1985, c. 1, as amended (the "Income Tax Act") solely through a registered dealer or, as appropriate, a registered dealer in a foreign jurisdiction (which dealer must be given a copy of this order) in (a) any "exchange-traded security" or "foreign exchange-traded security" within the meaning of National Instrument 21-101 provided that she does not own beneficially or exercise control or direction over more than 5 percent of the voting or equity securities of the issuer(s) of any such securities, and (b) any security issued by a mutual fund that is a reporting issuer.

DATED AT TORONTO this _____ day of May, 2013.

_____
JAMES E.A. TURNER

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
AFG Flameguard Ltd.	13 May 13	24 May 13		
Blue Note Mining Inc.	13 May 13	24 May 13		
BlueScout Technologies Ltd.	13 May 13	24 May 13		
Caldera Resources Inc.	13 May 13	24 May 13		
CMX Gold & Silver Corp.	13 May 13	24 May 13		
Echelon Capital Corporation	13 May 13	24 May 13		
Ecosse Energy Corp.	13 May 13	24 May 13		
FairWest Energy Corporation	13 May 13	24 May 13		
Freeport Capital Inc.	13 May 13	24 May 13		
Frontline Technologies Inc.	13 May 13	24 May 13		
GeoVenCap Inc.	13 May 13	24 May 13		
iMarketing Solutions Group Inc.	13 May 13	24 May 13		
ITOK Capital Corp.	13 May 13	24 May 13		
mHealth Capital Corp.	13 May 13	24 May 13		
Sharpe Resources Corporation	13 May 13	24 May 13		
Tranzeo Wireless Technologies Inc.	13 May 13	24 May 13		
Venga Aerospace Systems Inc.	13 May 13	24 May 13		
Win-Eldrich Mines Limited	13 May 13	24 May 13		
Quantitative Alpha Trading Inc.	02 May 13	14 May 13	14 May 13	
Hudson River Minerals Ltd.	02 May 13	14 May 13	14 May 13	
Golden Moor Inc.	02 May 13	14 May 13	14 May 13	

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
Argentium Resources Inc.	13 May 13	24 May 13			
Mint Technology	13 May 13	24 May 13			

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
ProSep Inc.	17 Apr 13	29 Apr 13	29 Apr 13		
Northland Resources S.A.	05 Apr 13	17 Apr 13	17 Apr 13		
dynaCERT Inc.	07 May 13	17 May 13			
Argentium Resources Inc.	13 May 13	24 May 13			
Mint Technology	13 May 13	24 May 13			

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 8

Notice of Exempt Financings

REPORTS OF TRADES SUBMITTED ON FORMS 45-106F1 AND 45-501F1

Transaction Date	No. of Purchasers	Issuer/Security	Total Purchase Price ($)	No of Securities Distributed
02/26/2013 to 03/06/2013	22	982 Film Fund Ltd. - Common Shares	470,901.00	N/A
02/01/2013	1	ABCA Funds Ireland PLC - Common Shares	19,973,933.32	14,953.68
03/01/2013	1	ABCA Funds Ireland PLC - Common Shares	20,570,004.48	15,013.62
01/31/2013	91	ACM Commercial Mortgage Fund - Units	6,265,913.11	55,560.40
04/04/2013 to 04/16/2013	64	Apogee Silver Ltd. - Units	3,563,500.00	71,270,000.00
03/12/2013	2	Ares Capital Europe II (D) L.P. - Limited Partnership Interest	41,016,000.00	N/A
03/12/2013	5	Artisan Partners Asset Management Inc. - Common Shares	8,459,550.00	275,000.00
03/01/2012 to 12/01/2012	6	Autonomy Global Macro Fund Limited - Units	175,607,550.00	N/A
03/25/2013	1	Beringer Capital Fund II L.P. - Limited Partnership Interest	200,000.00	N/A
02/12/2013	1	Bison Income Trust II - Trust Units	12,000.00	1,200.00
02/01/2013 to 02/08/2013	15	Bison Income Trust II - Trust Units	1,337,420.83	133,742.08
01/08/2013 to 01/17/2013	3	Bison Income Trust II - Trust Units	205,100.00	20,510.00
01/01/2012 to 12/31/2012	1	BlueCrest Capital International Limited - Units	4,004,850,000.00	1,355,081.00
02/01/2013	6	Capital Direct I Income Trust - Trust Units	183,279.00	18,327.90
03/01/2012 to 08/01/2012	8	Capstone Vol (Offshore) Limited - Units	144,062,600.00	N/A
04/09/2013	2	CareVest First MIC Fund Inc. - Preferred Shares	208,581.00	208,581.00
07/30/2010 to 08/06/2010	127	Communications DVR Inc. (amended) - Units	1,115,575.00	1,611,083.00
03/08/2013 to 03/12/2013	2	Condor Precious Metals Inc. - Common Shares	30,000.00	200,000.00
01/01/2012 to 12/31/2012	2	DIM Private Alternative Strategies Fund - Units	26,572,968.00	N/A
01/01/2012 to 12/31/2012	3	DIM Private Balance Fund - Units	7,637,092.00	N/A
01/01/2012 to 12/31/2012	3	DIM Private Bond Fund - Units	19,212,081.00	N/A

Transaction Date	No. of Purchasers	Issuer/Security	Total Purchase Price ($)	No of Securities Distributed
01/01/2012 to 12/31/2012	2	DIM Private Canadian Growth Equity Fund - Units	24,249,734.00	N/A
01/01/2012 to 12/31/2012	6	DIM Private Canadian Large Cap Equity Fund - Units	149,376,505.00	N/A
01/01/2012 to 12/31/2012	4	DIM Private Canadian Small Cap Equity Fund - Units	20,737,096.00	N/A
01/01/2012 to 12/31/2012	6	DIM Private Corporate Bond Fund - Units	108,003,962.00	N/A
01/01/2012 to 12/31/2012	6	DIM Private Government Bond Fund - Units	142,463,869.00	N/A
01/01/2012 to 12/31/2012	6	DIM Private International Equity Fund (formerly, DIM Private EAEO Equity Fund) - Units	111,244,559.00	N/A
01/01/2012 to 12/31/2012	2	DIM Private Monthly Distribution Income Fund - Units	9,132,374.00	N/A
01/01/2012 to 12/31/2012	5	DIM Private U.S. Equity Fund (for non taxable accounts) - Units	32,033,534.00	N/A
01/01/2012 to 12/31/2012	6	DIM Private U.S. Equity Fund (for taxable accounts) - Units	76,005,200.00	N/A
01/03/2012 to 12/17/2012	68	Diversified Private Trust - Units	1,744,749.36	157,635.12
02/15/2013 to 03/25/2013	1	Essex Angel Capital Inc. - Units	200,000.00	N/A
11/14/2012	28	First Reliance Real Estate Investment Trust - Units	1,574,000.00	157,400.00
01/29/2013	1	FMR LLC - Notes	5,006,878.00	N/A
03/01/2013	16	Foremost Mortgage Trust - Debt	1,431,067.00	1,431,067.00
02/01/2013	1	FTV IV, L.P. - Limited Partnership Interest	599,220.00	N/A
01/11/2012 to 12/17/2012	39	Growth & Income Diversified Private Trust - Units	1,201,651.87	112,504.31
01/01/2012 to 12/31/2012	243	G.I. Capital Alternative Hedge Strategies Fund - Units	12,392,976.86	N/A
01/01/2012 to 12/31/2012	259	G.I. Capital Alternative Income Fund - Units	10,678,786.00	N/A
01/01/2012 to 12/31/2012	169	G.I. Capital Private Debt Fund - Units	3,310,400.39	N/A
01/01/2012 to 12/31/2012	154	G.I. Capital Private Equity Fund - Units	4,706,223.79	N/A
04/05/2013	81	Highstreet King's Landing Limited Partnership - Units	5,428,800.00	542.88
04/22/2013	4	Hydrostor Inc. - Preferred Shares	2,096,697.00	3,394.00
03/28/2013	2	iCON Infrastructure Partners II L.P. - Limited Partnership Interest	108,900,700.00	2.00
01/31/2013	4	Imperial Capital Partners Ltd. - Capital Commitment	3,075,000.00	N/A

Transaction Date	No. of Purchasers	Issuer/Security	Total Purchase Price ($)	No of Securities Distributed
02/11/2013	3	ING U.S. Inc. - Notes	29,188,500.00	N/A
02/15/2013	5	Kingwest Avenue Portfolio - Units	328,784.01	10,563.31
03/31/2013	7	Kingwest Avenue Portfolio - Units	317,616.16	9,895.39
02/28/2013	2	Kingwest Avenue Portfolio - Units	48,000.00	1,517.84
02/28/2013	2	Kingwest Canadian Equity Portfolio - Units	22,244.30	1,751.05
01/31/2013	1	Kingwest Canadian Equity Portfolio - Units	10,244.30	836.86
02/28/2013	5	Kingwest High Income Fund - Units	71,600.00	11,852.93
02/15/2013	1	Kingwest US Equity Portfolio - Units	6,919,884.00	413.56
02/28/2013	2	Kingwest US Equity Portfolio - Units	14,142.08	843.53
01/31/2013	1	Kingwest U.S. Equity Portfolio - Units	4,605.10	280.45
02/11/2013 to 02/20/2013	7	KV Mortgage Fund Inc. - Preferred Shares	526,000.00	N/A
04/03/2013 to 04/05/2013	7	League IGW Real Estate Investment Trust - Units	276,888.81	276,888.81
01/03/2012 to 12/03/2012	16	Lincluden Private Trust - Units	280,970.72	28,327.36
02/01/2013	1	LMAP Alpha Limited - Common Shares	19,974,000.00	200,000.00
03/15/2013	1	MB Special Opportunities Fund LP - Limited Partnership Interest	29,411,765.00	1.00
02/20/2013	1	MLF Trust - Units	4,074,240.00	400,000.00
12/01/2012	1	Monarch Structured Credit Fund Ltd. (Series IV) - Common Shares	1,588,480.00	N/A
02/12/2013	21	Morex Capital Corp. - Preferred Shares	807,500.00	80,750.00
03/14/2013	1	Morgan Stanley Capital I Trust 2013- ALTM - Trust certificates	52,037,686.71	N/A
02/28/2013	29	Morrison Laurier Mortgage Corporation - Preferred Shares	3,397,150.00	N/A
03/04/2013 to 03/13/2013	43	Newport Balanced Fund - Trust Units	671,050.43	N/A
01/21/2013 to 01/30/2013	24	Newport Balanced Fund - Trust Units	1,081,910.41	N/A
03/14/2013 to 03/23/2013	21	Newport Balanced Fund - Units	765,389.20	N/A
02/21/2013 to 03/02/2013	11	Newport Balanced Fund - Units	519,900.00	N/A
03/04/2013 to 03/13/2013	22	Newport Canadian Equity Fund - Trust Units	700,592.84	N/A
01/21/2013 to 01/30/2013	21	Newport Canadian Equity Fund - Trust Units	615,689.42	N/A

Transaction Date	No. of Purchasers	Issuer/Security	Total Purchase Price ($)	No of Securities Distributed
02/11/2013 to 02/20/2013	7	Newport Canadian Equity Fund - Units	490,000.00	N/A
03/14/2013 to 03/23/2013	12	Newport Canadian Equity Fund - Units	267,532.82	N/A
02/21/2013 to 03/02/2013	12	Newport Canadian Equity Fund - Units	541,388.80	N/A
02/21/2013 to 03/02/2013	5	Newport Fixed Income Fund - Trust Units	385,000.00	N/A
03/04/2013 to 03/13/2013	9	Newport Fixed Income Fund - Trust Units	403,000.00	N/A
01/21/2013 to 01/30/2013	8	Newport Fixed Income Fund - Trust Units	534,713.74	N/A
02/11/2013 to 02/20/2013	5	Newport Fixed Income Fund - Units	219,635.50	N/A
03/14/2013 to 03/24/2013	6	Newport Fixed Income Fund - Units	320,716.18	N/A
02/11/2013 to 02/20/2013	80	Newport Global Equity Fund - Trust Units	3,975,058.08	N/A
03/04/2013 to 03/13/2013	59	Newport Global Equity Fund - Trust Units	1,186,655.83	N/A
01/21/2013 to 01/30/2013	102	Newport Global Equity Fund - Trust Units	3,439,990.70	N/A
03/14/2013 to 03/23/2013	23	Newport Global Equity Fund - Units	1,007,187.22	N/A
02/21/2013 to 03/02/2013	11	Newport Global Equity Fund - Units	438,810.12	N/A
02/21/2013 to 03/02/2013	40	Newport Strategic Yield Fund - Units	2,242,295.80	N/A
02/11/2013 to 02/20/2013	39	Newport Yield Fund - Trust Units	538,643.13	N/A
03/04/2013 to 03/13/2013	36	Newport Yield Fund - Trust Units	1,146,596.44	N/A
01/21/2013 to 01/30/2013	15	Newport Yield Fund - Trust Units	906,661.28	N/A
03/14/2013 to 03/23/2013	26	Newport Yield Fund - Units	824,765.34	N/A
02/21/2013 to 03/02/2013	18	Newport Yield Fund - Units	1,208,899.59	N/A
04/01/2012	1	Northern Trust Diversified Hedge Fund Ltd. - Units	2,490,250.00	N/A
04/17/2012	2	Osisko Mining Corporation - Common Shares	22,508,000.00	1,700,000.00
03/18/2011	4	Rare Earth Industries Ltd. (Formerly Seymour Ventures Corp. Revised) - Receipts	423,919.60	652,184.00
01/01/2012 to 12/31/2012	1	Renaissance Institutional Equities Fund International L.P. - Limited Partnership Interest	1,678,860.00	1.00

Transaction Date	No. of Purchasers	Issuer/Security	Total Purchase Price ($)	No of Securities Distributed
01/01/2012 to 12/31/2012	1	Renaissance Institutional Equities Fund SICAV p.l.c. - Common Shares	5,008,250.00	5,000.00
02/15/2013	58	Ross Smith Opportunities Fund - Units	4,076,965.75	N/A
02/01/2013	10	Sarona Frontier Markets Fund I LP - Limited Partnership Units	2,052,500.00	2,052,500.00
02/21/2013	1	SSF Trust - Units	5,156,700.00	N/A
02/06/2013	1	SSF Trust - Units	124,008,900.00	N/A
02/01/2013	1	Stacey Muirhead Limited Partnership - Limited Partnership Units	150,000.00	4,322.98
03/01/2013	6	Stacey Muirhead RSP Fund - Trust Units	52,759.00	5,644.23
02/01/2013	3	Stacey Muirhead RSP Fund - Trust Units	43,114.00	4,807.97
01/25/2013	3	Summer Street Capital III, L.P. - Limited Partnership Interest	1,005,920.00	500,000.00
02/05/2013	2	TowerBrook Investors IV (892) L.P. - Limited Partnership Interest	264,258,000.00	N/A
02/05/2013	3	TowerBrook Investors IV (OS) L.P. - Limited Partnership Interest	50,857,200.00	N/A
01/31/2013	111	Vertex Fund (amended) - Trust Units	7,225,731.34	N/A
01/31/2013	11	Vertex Managed Value Portfolio - Trust Units	5,123,094.16	N/A
01/31/2013	4	Vertex Strategic Income Fund - Trust Units	1,095,192.06	111,266.09
02/11/2013	1	VW Credit Canada Funding L.P. - Notes	350,000,368.00	N/A
03/28/2013	54	Walton AZ Coolidge Landing Investment Corporation - Common Shares	801,280.00	80,128.00
03/28/2013	48	Walton CA Highland Falls Investment Corporation - Common Shares	1,356,120.00	33,903.00
03/28/2013	10	Walton CA Highland Falls LP - Units	1,048,480.25	41,226.00
03/28/2013	28	Walton Income 6 Investment Corporation - Common Shares	723,000.00	2,800.00
03/28/2013	35	Walton NC Dutchman's Creek Investment Corporation - Common Shares	520,190.00	52,019.00
03/28/2013	9	Walton U.S. Dollar Income 1 Corporation - Bonds	120,550.05	7,900.00
12/26/2012	3	Wells Fargo & Company - Notes	30,289,829.99	3.00

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Chapter 11

IPOs, New Issues and Secondary Financings

Issuer Name:
Middlefield Global Infrastructure Fund
Principal Regulator - Alberta
Type and Date:
Preliminary Simplified Prospectus dated May 10, 2013
NP 11-202 Receipt dated
Offering Price and Description:
Series A and F Units
Underwriter(s) or Distributor(s):
Middlefield Capital Corporation
Promoter(s):
Middlefield Limited
Project #2059823

Issuer Name:
Bell Canada
Principal Regulator - Quebec
Type and Date:
Preliminary Base Shelf Prospectus dated May 10, 2013
NP 11-202 Receipt dated May 10, 2013
Offering Price and Description:
$4,000,000,000.00 - Debt Securities (Unsecured)
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2059012

Issuer Name:
Brookfield Renewable Energy Partners L.P.
Brookfield Renewable Energy Partners ULC
Brookfield Renewable Power Preferred Equity Inc.
Principal Regulator - Ontario
Type and Date:
Preliminary Base Shelf Prospectus dated May 13, 2013
NP 11-202 Receipt dated May 13, 2013
Offering Price and Description:
US$2,000,000,000
* Limited Partnership Units
*Class A Preference Shares
* Debt Securities
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2059607; 2059610; 2059609

Issuer Name:
Eagle Credit Card Trust
Principal Regulator - Ontario
Type and Date:
Preliminary Base Shelf Prospectus dated May 9, 2013
NP 11-202 Receipt dated May 9, 2013
Offering Price and Description:
Up to $1,500,000,000.00 of Credit Card Receivables-Backed Notes
Underwriter(s) or Distributor(s):
CIBC WORLD MARKETS INC.
RBC DOMINION SECURITIES INC.
BMO NESBITT BURNS INC.
DESJARDINS SECURITIES INC.
NATIONAL BANK FINANCIAL INC.
SCOTIA CAPITAL INC.
TD SECURITIES INC.
Promoter(s):
President's Choice Bank
Project #2058153

Issuer Name:
Eclipse Residential Mortgage Investment Corporation
Principal Regulator - Ontario
Type and Date:
Preliminary Long Form Prospectus dated May 9, 2013
NP 11-202 Receipt dated May 10, 2013
Offering Price and Description:
Maximum: $100,000,000.00 - 10,000,000 Class A Shares
Price: $10.00 per Class A Share
Underwriter(s) or Distributor(s):
RBC Dominion Securities Inc.
CIBC World Markets Inc.
TD Securities Inc.
BMO Capital Markets Inc.
National Bank Financial Inc.
Scotia Capital Inc.
Raymond James Ltd.
Canaccord Genuity Corp.
GMP Securities L.P.
Macquarie Private Wealth Inc.
Manulife Securities Incorporated
Desjardins Securities Inc.
Mackie Research Capital Corporation
Promoter(s):
MCAP FINANCIAL CORPORATION
Project #2042915

Issuer Name:
Griffiths Energy International Inc.
Principal Regulator - Alberta
Type and Date:
Preliminary Long Form Prospectus dated May 7, 2013
NP 11-202 Receipt dated May 7, 2013
Offering Price and Description:
Up to £ * - Up to * Common Shares
Price: £ * per Offered Share
Underwriter(s) or Distributor(s):
RBC DOMINION SECURITIES INC.
BARCLAYS CAPITAL CANADA INC.
CANACCORD GENUITY CORP.
FIRSTENERGY CAPITAL CORP.
Promoter(s):
-
Project #2056710

Issuer Name:
Manulife Global Tactical Credit Fund
Manulife U.S. Tactical Credit Fund
Principal Regulator - Ontario
Type and Date:
Preliminary Simplified Prospectuses dated May 10, 2013
NP 11-202 Receipt dated May 10, 2013
Offering Price and Description:
Advisor Series, Series F, Series FT6, Series I, Series IT and Series T6 Securities
Underwriter(s) or Distributor(s):
Manulife Asset Management Limited
Promoter(s):
Manulife Asset Management Limited
Project #2058899

Issuer Name:
Qwest 2013 Oil & Gas Flow-Through Limited Partnership - CDE Units
Qwest 2013 Oil & Gas Flow-Through Limited Partnership - CEE Units
Principal Regulator - British Columbia
Type and Date:
Preliminary Long Form Prospectus dated May 8, 2013
NP 11-202 Receipt dated May 9, 2013
Offering Price and Description:
Maximum: $20,000,000 - 800,000 CDE Units
Maximum: $20,000,000 - 800,000 CEE Units
Minimum: $5,000,000 - 200,000 CDE and/or CEE Units
Price: $25.00 per CDE and/or CEE Unit
Minimum Purchase: 100 Units
Underwriter(s) or Distributor(s):
Scotia Capital Inc.
BMO Nesbitt Burns Inc.
Manulife Securities Incorporated
RBC Dominion Securities Inc.
Macquarie Capital Markets Canada Ltd,
Raymond James Ltd.
Canaccord Genuity Corp.
GMP Securities L.P.
Mackie Research Capital Corporation
Acumen Capital Finance Partners Limited
Burgeonvest Bick Securities Limited
Desjardins Securities Inc.
Dundee Securities Ltd.
Leede Financial Markets Inc.
Promoter(s):
Qwest Investment Management Corp.
Project #2058120; 2058129

Issuer Name:
Sentry Global Balanced Income Fund
Principal Regulator - Ontario
Type and Date:
Preliminary Simplified Prospectus dated May 10, 2013
NP 11-202 Receipt dated May 13, 2013
Offering Price and Description:
Series A, Series F and Series I Units
Underwriter(s) or Distributor(s):
Sentry Investments Inc.
Promoter(s):
Sentry Investments Inc.
Project #2059299

Issuer Name:
Vanoil Energy Ltd.
Principal Regulator - British Columbia
Type and Date:
Preliminary Short Form Prospectus dated May 6, 2013
NP 11-202 Receipt dated May 7, 2013
Offering Price and Description:
Minimum Offering: $ * - * Offered Shares
Maximum Offering: $ * - * Offered Shares
Price: $ * per Offered Share
Underwriter(s) or Distributor(s):
GMP Securities L.P.
Promoter(s):
-
Project #2056569

Issuer Name:
Allied Nevada Gold Corp.
Principal Regulator - Ontario
Type and Date:
Final Short Form Prospectus dated May 9, 2013
NP 11-202 Receipt dated May 9, 2013
Offering Price and Description:
US$150,500,000.00 - 14,000,000 Shares of Common Stock Price: US$10.75 per Share of Common Stock
Underwriter(s) or Distributor(s):
DUNDEE SECURITIES LTD.
CORMARK SECURITIES INC.
Promoter(s):
-
Project #2055240

Issuer Name:
Aston Hill Global Resource & Infrastructure Class
(Series A, F and I shares)
(Class of shares of Aston Hill Corporate Funds Inc.)
Aston Hill Global Resource & Infrastructure Fund
(Series A, F and I units)
Principal Regulator - Ontario
Type and Date:
Final Simplified Prospectuses dated May 6, 2013
NP 11-202 Receipt dated May 10, 2013
Offering Price and Description:
Series A, F and I shares
Series A, F and I units
Underwriter(s) or Distributor(s):
Aston Hill Asset Management Inc.
Promoter(s):
Aston Hill Asset Management Inc.
Project #2042909

Issuer Name:
Bissett Focus Balanced Fund
(Series A, F, I, O and T units)
Bissett Focus Balanced Corpororate Class
(Series A, F, I, O and T shares)
(Classes of Franklin Templeton Corporate Class Ltd.)
Principal Regulator - Ontario
Type and Date:
Amendment #5 dated April 30, 2013 to the Simplified Prospectuses and Annual Information Form dated June 19, 2012
NP 11-202 Receipt dated May 8, 2013
Offering Price and Description:
-
Underwriter(s) or Distributor(s):
Franklin Templeton Investments Corp..
Bissett Investment Management, a division of Franklin Templeton Investments Corp.
Promoter(s):
Franklin Templeton Investments Corp.
Project #1900450

Issuer Name:
Canadian General Investments, Limited
Principal Regulator - Ontario
Type and Date:
Final Short Form Prospectus dated May 9, 2013
NP 11-202 Receipt dated May 9, 2013
Offering Price and Description:
$75,000,000.00 - 3,000,000 - 3.75% Cumulative Redeemable Class A Preference Shares, Series 4 @ $25 per share
Underwriter(s) or Distributor(s):
Scotia Capital Inc.
BMO Nesbitt Burns Inc.
Desjardins Securities Inc.
TD Securities Inc.
Promoter(s):
-
Project #2054407

Issuer Name:
Catamaran Corporation
Principal Regulator - Ontario
Type and Date:
Final Base Shelf Prospectus dated May 6, 2013
NP 11-202 Receipt dated May 10, 2013
Offering Price and Description:
U.S.$1,000,000,000.00
Debt Securities
Common Shares
Warrants
Convertible Securities
Share Purchase Contracts
Share Purchase Units
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2022904

Issuer Name:
Dynamic Dividend Fund (Series IT Securities)
Dynamic Corporate Bond Strategies Fund (Series I Securities)
Dynamic Strategic Global Bond Fund (Series I Securities)
Dynamic Alternative Yield Fund (Series I Securities)
Dynamic Dividend Income Class (Series E Securities)
Dynamic Corporate Bond Strategies Class (Series I Securities)
Dynamic Power Balanced Class (Series E Securities)
Dynamic Power Managed Growth Class (Series I Securities)
Dynamic Income Growth Opportunities Class (Series E Securities)
Dynamic Dividend Advantage Class (Series E and FI Securities)
Dynamic Global Asset Allocation Class (Series E Securities)
Dynamic Global Dividend Class (formerly Dynamic Global Dividend Value Class) (Series E Securities)
Dynamic Value Balanced Class (Series E Securities)
Dynamic Emerging Markets Class (Series I Securities)
Dynamic Strategic Resource Class (Series I Securities)
Dynamic Aurion Tactical Balanced Class (Series E Securities)
Principal Regulator - Ontario
Type and Date:
Amendment #4 dated April 30, 2013 to the Simplified Prospectuses and Annual Information Form dated January 30, 2013
NP 11-202 Receipt dated May 9, 2013
Offering Price and Description:
Series IT, I, E and FI @ Net Asset Value
Underwriter(s) or Distributor(s):
GCIC Ltd.
Promoter(s):
GCIC Ltd.
Project #1997932

Issuer Name:
Halogen Software Inc.
Principal Regulator - Ontario
Type and Date:
Final Long Form Prospectus dated May 10, 2013
NP 11-202 Receipt dated May 13, 2013
Offering Price and Description:
Cdn$55,200,000.00 - 4,800,000 Common Shares Price: Cdn$11.50 per Common Share
Underwriter(s) or Distributor(s):
CANACCORD GENUITY CORP.
STIFEL NICOLAUS CANADA INC.
RAYMOND JAMES LTD.
CANTOR FITZGERALD CANADA CORPORATION
NATIONAL BANK FINANCIAL INC.
Promoter(s):
-
Project #2040085

Issuer Name:
Horizons Universa Canadian Black Swan ETF
Horizons Universa US Black Swan ETF
Principal Regulator - Ontario
Type and Date:
Final Long Form Prospectus dated May 2, 2013
NP 11-202 Receipt dated May 7, 2013
Offering Price and Description:
Class E Units and Advisor Class Units @ Net Asset Value
Underwriter(s) or Distributor(s):
-
Promoter(s):
ALPHAPRO MANAGEMENT INC.
Project #2034074

Issuer Name:
Lincluden Balanced Fund
Principal Regulator - Ontario
Type and Date:
Final Simplified Prospectus dated May 9, 2013
NP 11-202 Receipt dated May 13, 2013
Offering Price and Description:
Series A units, Series F units, Series I units and Series O units @ Net Asset Value
Underwriter(s) or Distributor(s):
Lincluden Investment Management Limited
Lincluden Management Limited
Promoter(s):
Lincluden Investment Management Limited
Project #2036099

Issuer Name:
Maple Power Capital Corporation
Principal Regulator - Ontario
Type and Date:
Final CPC Prospectus dated May 3, 2013
NP 11-202 Receipt dated May 8, 2013
Offering Price and Description:
Minimum Offering: $750,000.00 or 7,500,000 Common Shares
Maximum Offering: $1,000,000.00 or 10,000,000 Common Shares
Price: $0.10 per Common Share
Underwriter(s) or Distributor(s):
Foster & Associates Financial Services Inc.
Promoter(s):
Bok Wong
To-Hon Lam
Project #2019413

Issuer Name:
Retrocom Mid-Market Real Estate Investment Trust
Principal Regulator - Ontario
Type and Date:
Final Short Form Prospectus dated May 13, 2013
NP 11-202 Receipt dated May 13, 2013
Offering Price and Description:
$50,032,500.00:
9,530,000 Subscription Receipts each representing the right to receive one Trust Unit
$5.25 Per Subscription Receipt
- and -
$25,000,000.00:
5.50% Extendible Convertible Unsecured Subordinated Debentures
$1,000 per Debenture
Underwriter(s) or Distributor(s):
TD SECURITIES INC.
CIBC WORLD MARKETS INC.
RBC DOMINION SECURITIES INC.
BMO NESBITT BURNS INC.
SCOTIA CAPITAL INC.
MACQUARIE CAPITAL MARKETS CANADA LTD.
DESJARDINS SECURITIES INC.
RAYMOND JAMES LTD.
CANACCORD GENUITY CORP.
DUNDEE SECURITIES LTD.
LAURENTIAN BANK SECURITIES INC.
M PARTNERS INC.
Promoter(s):
-
Project #2056043

Issuer Name:
SHAW COMMUNICATIONS INC.
Principal Regulator - Alberta
Type and Date:
Final Base Shelf Prospectus dated May 13, 2013
NP 11-202 Receipt dated May 13, 2013
Offering Price and Description:
$4 Billion
Debt Securities
Class B Non-Voting Participating Shares
Class 1 Preferred Shares
Class 2 Preferred Shares
Warrants
Share Purchase Contracts
Units
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2053303

Issuer Name:
Thomson Reuters Corporation
Principal Regulator - Ontario
Type and Date:
Final Base Shelf Prospectus dated May 10, 2013
NP 11-202 Receipt dated May 10, 2013
Offering Price and Description:
US$3,000,000,000.00
Debt Securities
(unsecured)
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2055195

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Chapter 12

Registrations

12.1.1 Registrants

Type	Company	Category of Registration	Effective Date
Voluntary Surrender of Registration	Cougar Global Investments Limited Partnership	Portfolio Manager	May 7, 2013
New Registration	Chartier Capital Management Inc.	Portfolio Manager	May 9, 2013

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Chapter 13

SROs, Marketplaces and Clearing Agencies

13.3.1 CDS – Notice and Request for Comments – Material Amendments to CDS Rules – Termination of Finet

CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS®)

MATERIAL AMENDMENTS TO CDS RULES

TERMINATION OF FINET

REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED CDS RULE AMENDMENTS

On April 15, 2013, the CDS Board of Directors approved Rule amendments in order to proceed with the termination of FINet. It is the intent of market participants that FINet be replaced by the fixed income netting service ("CDCS") operated by the Canadian Derivatives Clearing Corporation ("CDCC").

FINet is a CDS central counterparty ("CCP") function under which eligible fixed income transactions are cleared, and subsequently submitted for settlement.[1] FINet was implemented in April, 2009. It replaced DetNet which ran on a technology platform that no longer met CDS's architecture standards.

Currently, a wide range of fixed income securities can already be cleared through CDCS. Confirmed trades reported to CDS as "SNS" (intended for submission to CDCS) are automatically routed to CDCS for novation and netting, after which the resulting novated trades are reported back by CDCC to CDS for settlement within CDSX® on a trade for trade basis between CDCC and another Participant.

Once it has been fully developed, CDCS will render FINet redundant. CDCS will offer the same functionality as FINet but in a more effective and efficient manner. As additional securities become eligible for submission to CDCS, submissions to FINet will be reduced, and ultimately all trades in fixed income securities for clearing will be submitted to CDCS. At that time, FINet will be closed to new trades, and the Participant obligations resulting from transactions that were previously accepted into FINet will be maintained and closed out within FINet.

The proposed amendments reflect the termination of FINet by the removal of all references to FINet in the CDS Participant Rules, and by making some further, limited, consequential changes in those Rules. The amendments will become effective at the time that CDS determines that all Participant transactions in FINet have been settled and no further obligations exist from any trade submitted to, or position maintained in, FINet.

B. NATURE AND PURPOSE OF THE PROPOSED CDS RULE AMENDMENTS

The proposed amendments remove all references to FINet in the CDS Participant Rules. At the time FINet is terminated, current references to FINet will be redundant.

C. IMPACT OF THE PROPOSED CDS RULE AMENDMENT

C.1 Competition

Stakeholders in the Canadian financial services market chose CDCC to provide the services currently provided by FINet. Since the viability of those services is directly related to the degree to which all relevant transactions are captured by the facility offering the services, multiple facilities offering the same services are not desirable. The stakeholders have determined that there are operational inefficiencies in FINet which CDCS has been designed to overcome. As described further below, any Participants not able to directly use CDCS have been specifically advised of the pending termination of FINet.

[1] Eligible fixed income securities for FINet are those issued by the Government of Canada, provincial governments, and certain government-guaranteed securities, as detailed in CDS's Trade and Settlement Procedures, s. 5.3.

C.2 Risks and Compliance Costs

CDS does not anticipate any risks to CDS associated with the termination of FINet. All existing risk and operational management parameters, and related Participant Rules and Procedures, will remain fully effective until such time as there are no further obligations under, or risks associated with, FINet. Once no further obligations exist in FINet, any risks associated with operation of FINet will be eliminated. FINet operates as a fully autonomous system within the operations and risk parameters of CDS. Eliminating it from the operations of CDS will not affect the risk profile of CDS.

CDS does not expect that the proposed Rule amendments will result in any compliance costs for CDS, its Participants, or other market participants.

C.3 Comparison to International Standards – (a) Committee on Payment and Settlement Systems of the Bank for International Settlements, (b) Technical Committee of the International Organization of Securities Commissions, and (c) the Group of Thirty

As stated in Principle #21 – Efficiency and effectiveness – of the new international standards for payment, clearing and settlement systems set out in the CPSS/IOSCO report *Principles for Financial Market Infrastructures*,[2] a financial market infrastructure "should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures".

The industry selected CDCC to provide the fixed income netting facility for Canada. FINet has, consequently, become redundant.

No other comparisons to international standards were identified.

D. DESCRIPTION OF THE RULE DRAFTING PROCESS

D.1 Development Context

In December 2009, the Investment Industry Association of Canada ("IIAC") received a mandate from its membership to develop a new CCP for Canada's fixed income securities traded in the cash and repurchase markets. Following a request-for-proposal process, CDCC was selected by IIAC to develop this CCP and CDS was requested, by the IIAC Fixed Income CCP Steering Committee, to modify CDS's systems and procedures to accommodate the new CCP. The implementation of CDCC's fixed income netting facility has, therefore, made FINet redundant.

The transition from FINet to the CDCC fixed income netting service is being implemented in phases:

- Phase 1 was implemented February 21, 2012. This phase addressed repurchase agreements.
- Phase 2 was implemented on two dates: December 10, 2012 in relation to blind inter-dealer broker repo activity and March 11, 2013 in relation to fixed income cash trades.
- Phase 3 involves new functionality for handling general collateral repos, and will be implemented on a schedule to be determined.

D.2 Rule Drafting Process

Each amendment to the CDS Participant Rules is reviewed by CDS's Legal Drafting Group ("LDG"). The LDG is a Participant committee that includes members of Participants' legal and business groups. The LDG's mandate is to advise CDS management and its Board of Directors on rule amendments and other legal matters relating to centralized securities depository and clearing services in order to ensure that they meet the needs of CDS, its Participants and the securities industry.

The LDG reviewed the proposed Rule amendments at its meeting on March 21, 2013. The proposed Rule amendments were then reviewed and approved by the Board of Directors of CDS Ltd. on April 15, 2013.[3]

[2] The report can be found at http://www.bis.org/publ/cpss101.htm.

[3] Pursuant to a unanimous shareholder agreement between The Canadian Depository for Securities Limited ("CDS Ltd.") and CDS, effective as of November 01, 2006, CDS Ltd., which acts under the supervision of its Board of Directors, assumed all rights, powers, and duties of the CDS Board of Directors.

D.3 Issues Considered

As the decision to migrate fixed income securities clearing from FINet to CDCS was made by the industry, the only Rule drafting issue to consider was to redact all references to the same from the CDS Participant Rules and make any consequent amendments resulting from that redaction (e.g., in section references and grammatical construction).

D.4 Consultation

Industry members through IIAC requested the changes in fixed income netting services that resulted in the redundancy of FINet.

D.5 Alternatives Considered

No alternatives were considered. FINet will no longer be required for fixed income clearing as result of the implementation of CDCS.

D.6 Implementation Plan

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to section 21.2 of the Ontario *Securities Act*, by the *Autorité des marchés financiers* ("AMF") pursuant to Section 169 of the Quebec Securities Act, and by the British Columbia Securities Commission pursuant to Section 24(d) of the British Columbia *Securities Act*. In addition CDS is deemed to be the clearing house for CDSX, a clearing and settlement system designated by the Bank of Canada pursuant to section 4 of the *Payment Clearing and Settlement Act.* The Autorité des marchés financiers, the Bank of Canada, the British Columbia Securities Commission and the Ontario Securities Commission are collectively referred to as the "Recognizing Regulators".

The amendments to Participant Rules may become effective upon approval of the amendments by the Recognizing Regulators following public notice and comment or upon such later date as CDS determines, following appropriate notice pursuant to the CDS Participant Rules.

Amendments to CDS Procedures and its Risk Model are under development and will be completed before trades become ineligible for submission to FINet It is noted that based on current data, the period between the closing of FINet to new trades and termination of FINet could be as short as 5 to 10 business days.

E. TECHNOLOGICAL SYSTEMS CHANGES

E.1 CDS

CDS does not anticipate major systems changes required as a result of the termination of FINet. Minor systems changes required include the removal of the FINet eligibility option on CDSX screens, the discontinuance of FINet batch jobs, and report scheduling changes.

E.2 CDS Participants

Participants currently submitting fixed income trades to FINet will not be required to amend their systems to submit CDCC-eligible trades to CDCS. CDCC-eligible fixed income trades are already being submitted under the "SNS" coding established for this purpose in CDSX. If any Participant intends for a fixed income trade to settle on a "trade-for-trade" basis outside of CDCC, the Participant enters "TFT" as the mode of settlement.

Of the twelve Participants subscribed to FINet, two do not meet the membership criteria of CDCC. Of those two, one has already made alternative arrangements to handle its transactions, and the other is considering possible alternatives, which include TFT settlement and using a correspondent clearer.

E.3 Other Market Participants

Any market participant that wishes to directly clear its fixed income trades will be required to fulfill existing participation/membership requirements of both CDS and CDCC. In the event that a market participant does not qualify for Participation at CDS or membership at CDCC, such a participant will be required to engage with a correspondent clearing Participant or member, as the case may be.

Inter-Dealer Brokers, which are not currently CDS Participants, maintain settlement agent relationships with CDS Participants, and are not expected to be required to make technological systems changes.

F. COMPARISON TO OTHER CLEARING AGENCIES

As this is a termination of FINet, a comparison analysis to other clearing agencies is not possible.

G. PUBLIC INTEREST ASSESSMENT

CDS has determined that the proposed amendments are not contrary to the public interest.

H. COMMENTS

Comments on the proposed amendments should be in writing and submitted within 30 calendar days following the date of publication of this notice in the Ontario Securities Commission Bulletin to:

Jess Hungate
Legal Department
CDS Clearing and Depository Services Inc.
85 Richmond Street West
Toronto, Ontario M5H 2C9

Fax: 416-365-1984
e-mail: attention@cds.ca

Copies should also be provided to the Autorité des marchés financiers, British Columbia Securities Commission and the Ontario Securities Commission by forwarding a copy to each of the following individuals:

M^{e} Anne-Marie Beaudoin
Secrétaire générale
Autorité des marchés financiers
800, square Victoria, 22^{e} étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

Télécopieur: (514) 864-6381
Courrier électronique: consultation-en-cours@lautorite.qc.ca

Manager, Market Regulation
Market Regulation Branch
Ontario Securities Commission
22nd Floor, Box 55
20 Queen Street West
Toronto, Ontario, M5H 3S8

Fax: 416-595-8940
e-mail: marketregulation@osc.gov.on.ca

Doug MacKay
Manager, Market and SRO Oversight
British Columbia Securities Commission
701 West Georgia Street
P.O. Box 10142, Pacific Centre
Vancouver, B.C. V7Y 1L2

Fax: 604-899-6506
Email: dmackay@bcsc.bc.ca

Mark Wang
Manager, Legal Services
British Columbia Securities Commission
701 West Georgia Street
P.O. Box 10142, Pacific Centre
Vancouver, B.C., V7Y 1L2

Fax: 604-899-6506
Email: mwang@bcsc.bc.ca

CDS will make available to the public, upon request, all comments received during the comment period.

I. PROPOSED CDS RULE AMENDMENTS

Appendix “A” contains the text of current CDS Participant Rules marked to reflect proposed amendments.

Appendix “B” contains the text of CDS Participant Rules including the proposed amendments, in a clean (unmarked) version.

JAMIE ANDERSON
CHIEF LEGAL OFFICER
CDS CLEARING AND DEPOSITORY SERVICES INC.

[Editor’s Note: Appendix A and Appendix B are reproduced on the following internally numbered pages. Bulletin pagination resumes at the end of Appendix B.]

CDS Participant Rules

(Release 2013-~~02~~XX-~~26~~XX)

~~February 26,~~ Month XX, 2013

"Bank of Canada" means the central bank of Canada formed under the *Bank of Canada Act* (Canada).

"Board of Directors" or "Board" means the Board of Directors of CDS.

"Bond Rating Service" means a service providing to the public a rating of the short-term and long-term debt issued by Issuers (including Participants) and includes:

(i) "DBRS" Dominion Bond Rating Service;

(ii) "Moody's" Moody's Bond Record; and

(iii) "S&P" The Bond Guide issued by Standard & Poor's Rating Services.

"Book Entry Payment Method" means the process described in Rule 8.4 by which the payment obligations owing between a Participant and CDS may be discharged on Payment Exchange.

"Business Day" means any day on which the CDSX system is available to process Transactions.

“CA Liability Record” has the meaning ascribed to that term in Rule 6.8.5.

"CALMS" means the Corporate Action Liability Management Service described in Rule 6.8.5.

"CBA" means The Canadian Bankers Association.

"CCP Cap" means the threshold amount with respect to the CCP Functions that if exceeded requires the pledging of CCP Collateral, which threshold amountis established in accordance with Rule 5.14.

"CCP Collateral" means CCP Collateral as the term is defined in Rule 5.2.4.

"CCP Contributions Total" means an amount determined in accordance with the Procedures as described in Rule 5.14 taking into account the Contributions required to be made by the Participant to the Funds for all of the CCP Functions used by it.

"CCP Function" means ~~either~~ the CNS ~~or FINet Functions~~Function for processing Trades by novation and netting prior to Settlement.

"CCP Withdrawal Option" means the CCP Withdrawal Option described in Rule 9.4.

“CDCC” means the Canadian Derivatives Clearing Corporation.

“CDCC Interface” means the process by which CDS reports Trades identified with a Mode of Settlement of SNS to CDCC for clearing prior to such Trades being settled through the CDS Services.

as determined by the Participant's auditors in the financial statements filed by the Participant with the Canadian Regulatory Body that has primary jurisdiction over the Participant, provided that the Board may from time to time determine how Capital shall be calculated for the purposes of a particular Rule

"Capped Participant" means a Participant who is an Extender, Settlement Agent, Active Federated Participant or RCP Receiver and who has a System-Operating Cap.

"Category Credit Ring" means one of the groups of Participants described in Rule 5.9 that are classified into a particular category and that guarantee the payment to CDS of certain obligations of all other Members of that Category Credit Ring. "Category Credit Ring Agreement" means one of the common form agreements among all Members of certain Category Credit Rings referred to in Rule 2.3.3. "Category Credit Ring Collateral" means the collateral described in Rule 5.11.2 that is subject to Category Credit Ring Security Interests. "Category Credit Ring Security Interests" means the security interests granted by a Member of a Category Credit Ring described in Rule 5.11.2.

"Central Counterparty Obligation" means the reciprocal obligations and rights between CDS and a Participant as the result of the processing of Trades, prior to Settlement, in the CNS ~~or FINet~~ Function. Under a Central Counterparty Obligation, (i) either CDS or the Participant has an obligation to deliver Securities and a right to receive payment for such delivered Securities, and (ii) the other party has the corresponding right to receive Securities and the corresponding obligation to make payment. A Central Counterparty Obligation is a CNS Obligation ~~or a FINet Obligation~~.

“Collateral” means, with respect to a suspended Participant:

(i) its Contributions to a Collateral Pool;

(ii) its Contributions to a Fund;

(iii) its Settlement Service Collateral;

(iv) its Specific Collateral; and

(v) its CCP Collateral.

"Collateral Account" means an Account to record Securities and funds that have been Pledged to the Participant and that are held by CDS for that pledgee Participant. A "Restricted Collateral Account" is a Collateral Account that is a Risk Account. "Collateral Administration Ledger" means a CDS Ledger used for the management and control of collateral held by CDS, as described in Rule 5.3. "Collateral Pool" means one of the collateral pools established by certain Category Credit Rings pursuant to Rule 5.12.

"Collateral Pool Contribution" means the contribution made to its Collateral Pool by a Member of a Category Credit Ring.

"Fedwire" means the system for the transfer of money operated by the Federal Reserve System of the United States of America.

"Final Contribution" means the Fund Contribution, to the Fund for the CCP Function from which the Withdrawing CCP Participant intends to withdraw, which is the total of the Withdrawal Contribution and the Original Contribution of the Withdrawing CCP Participant, as calculated pursuant to Rule 9.4.7.

"Financial Institution" means any one of the following:

(i) a bank named in Schedule I or II to the *Bank Act* (Canada);

(ii) an institution regulated pursuant to an *Act respecting financial services cooperatives* (Québec);

(iii) a trust company or corporation, a loan company or corporation, a credit union, a savings and credit union or a credit union central, which is incorporated and regulated under the laws of Canada or any province or territory thereof; or

(iv) a crown corporation created pursuant to and governed by the *Alberta Treasury Branches Act* (Alberta).

~~"FINet" means the Function described in Rule 7.3 for processing certain Trades prior to Settlement.~~ .

~~"FINet Obligation" means a Central Counterparty Obligation between CDS and a Participant that is calculated as the result of the processing of Trades, prior to Settlement, in the FINet Function.~~ .

~~"FINet Real Time Settlement Process" means one of the Settlement processes described in Rule 7.5~~

"Foreign Custodian" means a Person who has been appointed by CDS to perform the duties of a Foreign Custodian for CDS with respect to Securities held for Participants in the Depository Service.

"Foreign Institution" means a Person:

(i) that is incorporated, established or formed under the laws of a jurisdiction situate outside Canada or that is primarily regulated under the laws of a jurisdiction situate outside Canada; and

(ii) that is a broker or dealer trading in Securities, a bank or savings bank, a trust company or corporation, a loan company or corporation, an insurance company or corporation, a securities clearing corporation or depository, a central bank or any other Person trading in Securities.

"Formula Amount" means a factor used in the calculation of the System-Operating Cap of a Capped Participant, as described in Rule 5.10.

"Function" means a method of processing Trades in respect of a Service. CDS may make available more than one Function in respect of any given Service. Functions include the Functions described in the Procedures and the CNS ~~and FINet Functions~~Function for processing Trades by novation and netting prior to Settlement.

"Fund" means one of the Funds established pursuant to Rule 5.7 with respect to a Service or Function.

"Fund Contribution" means the contribution made by each Fund Member pursuant to Rule 5.8, in which the Fund Member grants a security interest in favour of CDS.

"Fund Credit Ring" means one of the groups of Participants described in Rule 5.7 that are Members of a Fund and that guarantee the payment to CDS of certain obligations of all other Members of that Credit Ring.

"Fund Member" means a Participant who makes use of the Service or Function in respect of which a Fund is established and that is required to contribute to such Fund.

"funds" means the obligation owing to CDS by a Participant or by CDS to a Participant, which is evidenced by a negative or positive balance respectively in that Participant's Funds Account.

"Funds Account" means an Account to record by currency the net amount from time to time owing between CDS and the Participant arising from the Participant's use of the Depository Service and the Settlement Service.

"Funds Transfer" means a Transaction between any two Participants, or between CDS and any Participant, by which the Funds Account of one of them is debited with a certain amount and the Funds Account of the other is credited with a corresponding amount.

"General Account" means a Securities Account that is a Risk Account.

"Government Body" means the Government of Canada or the Government of any province or territory of Canada or any municipality in Canada, or any of their agencies.

"Hypothec" has the meaning set forth in Rule 5.2.9. "Inter-Surety Agreement" means the agreement made among all Sureties referred to in Rule 2.4.9.

"ISIN Activator" means a Participant who performs the activities of an ISIN Activator set out in Rule 2.5.3.

"Issuer" includes a Person other than an individual that meets one or more of the following criteria (including, where applicable, a Participant):

"User" means an individual who on behalf of a Participant is given the ability (whether by the assignment of an Authentication Mechanism or otherwise) to access computer processing activities for real time or batch Services.

"User Administrator" means an individual appointed by a Participant to give individual Users the ability on behalf of the Participant to access computer processing activities for real time or batch Services.

"User Guide" means one of the user guides in the form prescribed by CDS from time to time for a Service, and includes the on-line help terminal video displays made available as part of the systems which are accessed in accordance with the User Guides. and

"Value Date" means the date on which the parties to a Trade ~~or a FINet~~ Obligation have agreed that the Trade ~~or FINet~~ Obligation is to be Settled.

"Withdrawal Account" means an Account to record Securities held by CDS for the Participant, with respect to which the Participant has made a withdrawal request that has not yet been confirmed.

"Withdrawal Contribution" means the additional Fund Contribution to the Fund for the CCP Function in respect of which the Withdrawing CCP Participant has exercised the CCP Withdrawal Option, which is made by the Withdrawing CCP Participant upon giving notice to CDS of its exercise of the CCP Withdrawal Option.

"Withdrawing CCP Participant" means a Participant who has exercised the CCP Withdrawal Option.

agreement between a securities and derivatives clearing house and a clearing member within the meaning of section 13.1 of that Act.

1.3.13 Eligible Financial Contract

CDS and each Participant acknowledge that:

(i) a Central Counterparty Obligation constitutes an eligible financial contract between CDS and the Participant;

(ii) the obligations of a Participant and of CDS arising from the Settlement of a Trade or any other Transaction, for CDS to deliver to the Participant the Securities shown in the Participant's Securities Account and for the Participant to make or receive payment on Payment Exchange as recorded in the Participant's Funds Account, constitute an eligible financial contract between CDS and the Participant;

(iii) the obligations of a Participant and of CDS arising from the Cross-Border Services constitute an eligible financial contract between CDS and the Participant; and

(iv) each of the Participant Agreement, the Rules and the Legal Documents constitute master agreements in respect of such eligible financial contracts and accordingly are also eligible financial contracts between CDS and each Participant, and between Participants.

The Rules and the Legal Documents shall be interpreted so as to ensure that CDS or a Participant, as the case may be, is accorded the rights and powers of a party to an eligible financial contract pursuant to the *Bankruptcy and Insolvency Act*, the *Companies' Creditors Arrangement Act,* the *Winding-Up and Restructuring Act,* the *Canada Deposit Insurance Corporation Act* or any similar legislation.

1.3.14 Finality

Entries are made in the Ledgers maintained for Participants and for CDS to record Transactions involving two Participants or CDS and a Participant, including the deposit, withdrawal and delivery of Securities, the novation and netting of Transactions through the CNS Function ~~and the FINet Function~~, and the making of payment. Such entries are final and irrevocable when made. The settlement of a payment obligation between CDS and a Participant is final and irrevocable once made, and however made, including by payment to or from an account of CDS at Bank of Canada, by a payment message through Fedwire, by payment to or from an account of CDS at its banker for any Cross-Border Service, or by payment to or from the Participant's Qualified Banker or Designated Payment Agent. Such final and irrevocable entries and payments cannot be deleted, adjusted, reversed, repaid or set aside. CDS and the Participants shall be entitled to an accounting with respect to any Transaction, but any errors may be corrected only by the making of new entries or payments in accordance with the Rules as the circumstances may require.

transfer Securities to the Ledger of another Participant through the Settlement Service. On behalf of the Participants, and on CDS's own behalf and on behalf of other Participants pursuant to the security interests granted by the Participants pursuant to Rule 5, with respect to each Security deposited in the Depository Service, CDS has control and possession of the Security, or as an entitlement holder has a security entitlement and the corresponding rights and property interest with respect to a financial asset credited to a securities account maintained for CDS by a Foreign Custodian. On request by a Participant, CDS shall deliver to the Participant the Securities held by CDS for the Participant as shown in the records of CDS for the Participant's Securities Accounts.

1.6.5 Settlements

Settlement is effected on a delivery versus payment basis. Trades are reported to CDS to be Settled by the delivery of Securities and the making of payment. A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using ~~one of~~ the CNS ~~or FINet Functions~~Function to process Central Counterparty Obligations. Trades are subject to various edits, including the Aggregate Collateral Value Edit to monitor the amount of collateral available to support the Participant's obligations.

Settlement of a Trade is effected by CDS making entries to the Ledgers maintained by it for the Participants who are parties to the Trade, to debit and credit the appropriate Accounts so as to make payment and deliver Securities between the Participants. Securities may be delivered by the book delivery of Securities held in the Depository Service. If a Trade is Settled using Certificate Based Settlement, the Securities are delivered by the physical delivery of a Security Certificate evidencing the Securities. Upon Settlement of a Trade, the obligations between the Participants to deliver Securities and to make payment are extinguished and replaced by obligations between CDS and the Participants to deliver the Securities shown in the Participants' Securities Accounts and to make payment as recorded in the Participants' Funds Accounts.

1.6.6 Payment Exchange

During Payment Exchange for each currency on each Business Day, by means of Acceptable Payments, CDS receives payment from and makes payment to Participants of obligations arising from their use of CDSX. The obligations owing between a Participant and CDS may be discharged on Payment Exchange by means of the Book Entry Payment Method or by an Acceptable Payment.

1.6.7 Credit Rings

All Participants (other than Bank of Canada) are Members of a Category Credit Ring, by which each Member guarantees the payment to CDS of certain obligations of the other Members of that Category Credit Ring. All Participants using certain Functions are Members of a Fund Credit Ring for that Function, by which each Member guarantees

agreement between such Participants. Where a Trade is submitted to CDS with a Third Party Clearing System Mode of Settlement, and where such Trade is rejected by the TPCS, CDS may, in accordance with the Procedures, and at any time prior to Settlement, modify the Mode of Settlement of a confirmed Trade between two Participants from its initial Mode of Settlement.

3.3.10 Termination of a Service or Function

CDS intends to offer the Services indefinitely but may suspend or terminate the operation of any Service or Function with the approval of the Board of Directors. CDS shall give notice to Participants of any proposal to suspend or terminate any Service or Function, at least 30 days before the effective date of the suspension or termination, provided that such notice may be abbreviated if the suspension or termination is for reasons outside the control of CDS.

5.7. CREDIT RINGS FOR FUNDS

5.7.1 Establishment of Funds

Each Participant who uses ~~any of~~ the ~~following Functions~~CNS Function must become a Member of the Fund established for that Function:

~~(a) FINet~~

~~(b) CNS~~

Each Member of a Fund is part of the Fund Credit Ring. Each Member of a Fund Credit Ring guarantees payment to CDS of certain obligations of a suspended Member pursuant to this Rule 5.7. Each Member of a Fund makes Contributions to that Fund pursuant to Rule 5.8.

5.7.2 Payment by Fund Credit Ring

Each Member of a Fund is also a Member of the Credit Ring for that Fund. If CDS has been unable to collect from a Defaulter who is a Member or a former Member of a Fund for a Function an obligation to CDS arising from the Defaulter's use of such Function, then each other Member of that Fund shall pay to CDS its proportionate share of that obligation forthwith upon request by CDS. If any Member fails or refuses to pay its proportionate share of an obligation pursuant to this Rule 5.7 it will be considered to be a "subsequent Defaulter". Each other Fund Member who makes payment to CDS of its proportionate share of the obligation of a Defaulter and of each subsequent Defaulter will be considered to be a "Survivor". Each other Fund Member, upon request by CDS, shall pay to CDS its proportionate share of the obligation of such subsequent Defaulter, and so on with respect to all failures or refusals of other Members to pay their respective proportionate shares, until the full amount of the obligation owing by the Defaulter to CDS has been paid. References to a Defaulter or a Survivor shall be deemed to refer to a subsequent Defaulter or to a Fund Member that makes payment to CDS of its proportionate share of the obligation of a subsequent Defaulter, respectively, *mutatis mutandis*. The Credit Ring for a Fund has no obligation to CDS with respect to any obligation of a Participant arising from that Participant's use of another Function.

5.7.3 Defaulter's Obligation

The obligation referred to in Rule 5.7.2 of a Defaulter who is a Member of a Fund is the total of

(a) Marks owed by the Defaulter arising from its use of the Function for which the Fund is established (including Marks calculated in respect of its Central Counterparty Obligations after the Defaulter is suspended); and

(b) the net termination value of all of the Defaulter's Central Counterparty Obligations arising from its use of that Function.

The obligation of a Defaulter may be denominated in Canadian dollars or in US dollars or in both and the aggregate obligation in all currencies is the Debtor's obligation.

5.7.4 Calculation of Proportionate Share

Any request by CDS for payment pursuant to Rule 5.7.2 shall specify the effective time on the effective date to be used to calculate the Member's proportionate share of the obligation and shall provide details of that calculation. The effective date and time shall be the date and time of the suspension of the Defaulter or subsequent Defaulter, unless the Board of Directors determines that another date and time shall be used for such calculation. The Board of Directors, acting reasonably in the best interest of CDS and of Participants generally, may fix the effective time on the effective date for the calculation of proportionate shares. A Member's proportionate share of an obligation shall be in the same proportion to the obligations of all other Members that the Member's Fund Contribution to the Fund established for the Function in respect of which the obligation has arisen is of the total of all Fund Contributions required to be made to that Fund by all Members (other than the Defaulter)~~, except that the proportionate share of a Member of the FINet Fund shall be determined in accordance with a formula set out in the Procedures that is based on that Member's recent Transactions with the Defaulter that have been processed in FINet and deleted from the Settlement Service, as reflected in the archival records of such deleted Transactions.~~ In calculating a Member's proportionate share of the obligation of a subsequent Defaulter, the Fund Contributions to the Fund of the Defaulter and of each subsequent Defaulter shall be excluded from the calculation. If a Member's Fund Contribution is denominated separately in Canadian dollars and in US dollars, then for the purposes of this Rule 5.7.4, the calculation of the proportionate share shall be made using the aggregate Contributions, converting the US dollar Contributions to a Canadian equivalent using an exchange rate determined by CDS.

5.7.5 Continuing Obligation

The obligation of a Member of a Fund Credit Ring pursuant to this Rule 5.7 is a continuing obligation and is not discharged in whole or in part by, and each Member shall make payment as required by Rule 5.7.2 without regard to:

(a) any payment made by the Defaulter or by another Member;

(b) the suspension, termination or withdrawal of any Member of the Fund Credit Ring as a Participant; or

(c) any defences, claims, counterclaims, statutory or contractual rights of set-off or rights of offset arising between the Defaulter and the Member or between CDS and the Defaulter or between CDS and the Member.

5.7.6 Actions by CDS

The liability of a Member of a Fund Credit Ring pursuant to this Rule 5.7 shall not be affected by any act or failure to act of CDS or of the Defaulter. Without limiting the generality of the foregoing:

(a) The details of Trades between Participants that are to be Settled through the Service are reported to CDS.

(b) If the Trade instructions specify a TPCS Mode of Settlement, the Trade is reported to the TPCS.

(c) If the Trade instructions pass the pre-entry system edits, the Trade is entered into the system to be considered for Settlement.

(d) A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using ~~one of~~ the CNS ~~or FInet Functions~~Function to process Central Counterparty Obligations.

(e) The Settlement of each pending Trade using the Trade-for-Trade method is effected by means of payment and delivery of Securities between Participants. The Settlement of each outstanding Central Counterparty Obligation is effected by means of payment and delivery of Securities between Participants and CDS. Payment is made through the Settlement Service by book entry on the records of CDS. Securities are delivered either by the book delivery on the records of CDS of Securities held in the Depository Service or by the physical delivery of Security Certificates (if the Trade is to be Settled using the Certificate Based Settlement method).

(f) If the Trade is reported with a TPCS Mode of Settlement, and the Third Party Clearing System has netted the Trade prior to the position's having been reported to CDS, the Trade representing the netted position will Settle on a Trade-for-Trade basis between the Participant and the Third Party Clearing System.

(g) There are ~~four~~three Settlement processes: the Real Time Continuous Net Settlement Process, the Real Time TFT Settlement Process the Combined Batch Net Settlement/Continuous Net Settlement Process ~~and the FINet Real Time Settlement Process~~.

7.1.2 Overview of Netting Prior to Settlement

A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using ~~one of~~ the CNS ~~or FINet Functions~~Function to create and revise Central Counterparty Obligations.

When a Trade is Settled without netting using the Trade-for-Trade method, the Participants who are parties to the Trade retain their identity as deliverer and receiver, and as payee and payor, with respect to that Trade until Settlement between those Participants is completed.

A Trade may be processed prior to Settlement through ~~one of~~ the CNS ~~or FINet Functions~~Function, if ~~that~~the CNS Function applies automatically to that class of Trades or if the following conditions are met: (i) both Participants to the Trade use ~~that~~the CNS Function; (ii) the Security with respect to which the Trade is made is eligible for ~~that~~the CNS Function; and (iii) both Participants specify the use of ~~that~~the CNS Function for the Settlement of that Trade.

When a Trade is processed in the CNS ~~Function or FINet~~ Function prior to Settlement, each of the obligations of the Participants who are the parties to the Trade is first novated to obligations between each Participant and CDS and the resulting novated obligation with CDS is then netted with each Participant's like obligations with CDS to calculate the Central Counterparty Obligation to be Settled between that Participant and CDS. Under a Central Counterparty Obligation, (i) either CDS or the Participant has an obligation to deliver Securities and a right to receive payment for such delivered Securities, and (ii) the other party has the corresponding right to receive Securities and the corresponding obligation to make payment. ~~A Central Counterparty Obligation is a CNS Obligation or a FINet Obligation, depending on which Function was used to process the original Trades.~~

7.1.3 Ledgers and Accounts

For each Participant, CDS maintains one or more Ledgers. CDS also maintains one or more Ledgers for itself. Within each Ledger, there are a number of Accounts for funds and Securities. The Ledgers and Accounts are more fully described in Rule 6.1 and Rule 8.1.

7.1.4 Delivery of Securities and Making of Payment

When a Trade is settled on a delivery versus payment basis, the delivery of the Securities and the payment occur simultaneously. The Settlement of each pending Trade using the Trade-for-Trade method is effected by means of payment and delivery of Securities between Participants. The Settlement of each outstanding Central Counterparty Obligation is effected by means of payment and delivery of Securities between the Participant and CDS. References in these Rules to entries made on the Ledgers of Participants for the Settlement of a Central Counterparty Obligation include, unless the context otherwise requires, entries made on the Ledgers maintained by CDS for itself. Delivery of Securities is made to or from CDS from or to a Participant. Payment is made through the Settlement Service by book entry on the records of CDS. Securities are delivered either by the book delivery on the records of CDS of Securities held in the Depository Service, or by the physical delivery of a Security Certificate (if the Trade is to be Settled using the Certificate Based Settlement method). CDS makes entries to the Ledgers maintained by it for the parties to the Trade or Central Counterparty Obligation, to debit and credit the appropriate Accounts so as to make payment and, if the Settlement uses book delivery, to deliver Securities. Upon Settlement of a Trade, the obligations arising from the underlying Trade between the Participants (or, if the Settlement relates to a Central Counterparty Obligation, the obligations between CDS and the Participant evidenced by that Central Counterparty

(c) Trade-for-Trade Settlement of Trades reported by Third Party Clearing System

Trades reported from a TPCS to CDS shall Settle on a Trade-for-Trade basis in accordance with Rule ~~7.5.2,~~7.4.2, with the TPCS as the counterparty to each Trade.

(d) Partial Delivery by Third Party Clearing System

When an outstanding TPCS Obligation is considered for TFT Settlement and the Settlement of the entire TPCS Obligation would not pass the pre-Settlement edit, but a partial Settlement of the TPCS Obligation would pass the pre-Settlement edits, then CDS may modify the original Trade in order to partially Settle that portion of the Trade which would otherwise be eligible for TFT Settlement but for the restriction of Rule ~~7.5.2~~7.4.2(d). Partial Settlement of a TPCS obligation results in the deletion of the original Trade and the creation of two new Trades, one for the amount of the available Securities or Funds, and one for the outstanding remainder. The former Trade will Settle by the delivery of only some of the Securities required and the making of a corresponding partial payment; the latter Trade will remain outstanding, to be reconsidered for Settlement. A pending Trade that constitutes the remainder of a partial Settlement may itself be partially Settled by the same process as defined herein.

~~7.3. FINET FUNCTION~~

~~7.3.1 Overview of FINet Function~~

~~FINet is a Function to net and novate fixed income eligible Trades. For eligible Trades, FINet calculates the FINet Obligations owing from time to time between a Participant and CDS by novating, on or prior to Value Date, the obligations between the Participants arising from an eligible Trade to obligations with CDS and by netting all of a Participant's like obligations with CDS. Each resulting FINet Obligation is a Central Counterparty Obligation that is eligible for Settlement on its Value Date through FINet realtime settlement or the Settlement Service.~~

~~7.3.2 Eligibility~~

~~Pursuant to Rule 2.2.8, the Board may impose such additional qualifications and standards for Participants eligible to use FINet as the Board considers necessary or desirable for the protection of CDS and of other Participants using FINet. CDS shall determine the Trades that are eligible for processing in FINet, based on any characteristic that CDS determines is relevant, including the class of Securities to be delivered in such Trade and the trade source.~~

A current or past or future value-dated Trade may be processed prior to Settlement through FINet, if FINet applies automatically to that class of Trades and if the Trade meets the eligibility criteria set out in the Procedures and the criteria set out in each Participant's service options.

7.3.3 Novation of Trades Prior to Settlement

When a Trade is processed in FINet, the Settlement obligations and rights between the Participants arising from the Trade (to deliver Securities and to receive payment, or to receive Securities and to make payment) are extinguished and replaced by corresponding Settlement obligations and rights between each Participant and CDS, with the result that all such obligations of each Participant are owed to CDS and all such rights of each Participant are against CDS. The novated obligations and rights between CDS and each Participant shall be due as of the Value Date of the Trade. To the extent, if any, that the novation of the Settlement obligations and rights affects any of the terms and conditions of the underlying Trade between the Participants that was to be Settled by the Trade, such terms and conditions shall be deemed to be amended, required to be performed and to have effect in a manner consistent with Settlement by FINet processing.

7.3.4 Netting of Novated Trades

Each time a Trade between Participants is processed in FINet, the novated obligations and rights between each Participant and CDS are netted with their like novated obligations and rights in order to calculate the single FINet Obligation with that Value Date, for that issue of Securities and in that currency then-outstanding between that Participant and CDS. One FINet Obligation is a like obligation to another FINet Obligation if each is a FINet Obligation of that Participant to CDS, and of CDS to that Participant, with the same Value Date, denominated in the same currency, for the same issue of Securities, and resulting from other Trades of that Participant that has processed through FINet. A Participant's FINet Obligations are like obligations and may be netted even if under one FINet Obligation, CDS has the obligation to deliver Securities to the Participant and the right to receive payment from the Participant, while under the other FINet Obligation, CDS has the right to receive Securities from the Participant and the obligation to make payment to the Participant, and *vice versa*.

CDS maintains a record of the FINet Obligations of each Participant outstanding from time to time, to record by Value Date for each issue of Securities (i) the obligation of the Participant to deliver Securities to CDS and the right of the Participant to receive payment from CDS, or (ii) the obligation of the Participant to receive Securities from CDS and the right of the Participant to make payment to CDS.

7.3.5 FINet Process

The netting of the obligations and rights arising from a novated Trade occurs simultaneously with the novation of that Trade, to calculate a single FINet Obligation due on each Value Date for each issue of Securities denominated in the same currency

and for the same client account (if applicable). Such novation and netting occur when entries are made in the records maintained by CDS, deleting the Trade between the Participants and recording new or recalculated FINet Obligations between each of the Participants and CDS. The entries for each Trade are processed concurrently on a committed basis, with the result that (i) either all of the entries are made to delete the Trade and record the FINet Obligations or none of the entries is made, and (ii) the deletion and the recording occur simultaneously. CDS shall provide Participants with information showing each of the Trades that has been deleted upon being processed in FINet, to assist Participants in reconciling their records. For greater certainty, the fact that CDS provides archival records of the deleted Trades shall not detract from the finality of the novation of any Trade once processed in FINet, and such records shall not constitute evidence of any obligation owing between the Participants to a deleted Trade.

7.3.6 Marks

(a) Daily Mark-to-Market Calculations

For each Business Day that a FINet Obligation is outstanding, CDS shall calculate at the times and in accordance with the Procedures a daily Mark in respect of that FINet Obligation. A daily Mark reflects the financing element of the FINet Obligation and the then-current market price of the Securities based on the daily price feeds that are to be received by CDS and may be calculated one or more times on a Business Day. A daily Mark is an amount that shall be paid on that Business Day(intraday mark) or the next Business Day (end-of-day mark) either to CDS by the Participant owing the FINet Obligation, or by CDS to that Participant. In addition, on that Business Day the payment component of the FINet Obligation is adjusted by the amount of the daily Mark.

(b) Fail Mark

In addition, to encourage the timely Settlement of FINet Obligations, CDS may impose a fail Mark in respect of any delayed or partial delivery of the Securities to be delivered pursuant to a FINet Obligation or in respect of any delayed or partial payment to be made pursuant to a FINet Obligation. CDS shall calculate in accordance with the Procedures the fail Mark, which will reflect the financing cost of the delayed or partial Settlement. If imposed, the fail Mark shall be paid to CDS by participants who failed to deliver Securities or to make payment to CDS, and shall be paid by CDS to participants to whom CDS failed to deliver Securities or to make payment. The payment component of the FINet Obligation is not adjusted by the amount of the fail Mark.

(c) Payment of Net Mark

CDS calculates a net amount owing to or by each Participant in respect of Marks for FINet by netting all FINet Marks to be paid or received by that Participant and the net FINet Mark is credited to or debited from the Funds Account of the

Participant. No amount shall be drawn under a Line of Credit or a System-Operating Cap in respect of a FINet Mark.

7.3.7 Settlement of FINet Obligations

Each FINet Obligation shall be Settled on its Value Date by a Trade between the Participant and CDS, effected by appropriate debits and credits to the Securities Account and Funds Account of CDS and of the Participant, subject to the same edits and restrictions as any other Trade of that Participant.

7.3.8 Partial Settlement and Delayed Settlement

(a) Effect of Partial or Delayed Settlement

CDS may delay the receipt of, or take partial receipt of, Securities that it is due to receive under the securities component of a FINet Obligation if it is unable to re-deliver all such Securities under the securities component of another of its FINet Obligations with another Participant, and may delay the delivery of, or make partial delivery of, Securities that it is due to deliver under the securities component of a FINet Obligation if it has not received the delivery of all such Securities under the securities component of another of its FINet Obligations with another Participant. When a partial delivery of Securities is made by a Participant or by CDS in Settlement of the securities component of its FINet Obligation, the payment component of that FINet Obligation shall be adjusted accordingly; when a partial payment is made by a Participant or by CDS in Settlement of the payment component of its FINet Obligation, the securities component of that FINet Obligation shall be adjusted accordingly. If a FINet Obligation of a Participant or of CDS is not Settled in full on its Value Date because any or all of the Securities due to be delivered in respect of the FINet Obligation are not delivered or because any or all of the payments due to be made in respect of the FINet Obligation are not made, then the Value Date of the outstanding FINet Obligation will be changed to the next Business Day, and will be netted with the like FINet Obligations of CDS and of that Participant for the new Value Date (if they exist). The revision and recalculation of the FINet Obligation will continue until it is Settled in full. To encourage the timely Settlement of FINet Obligations, CDS may impose a fee in respect of any delayed or partial delivery or receipt of the Securities pursuant to a FINet Obligation or in respect of any delayed or partial payment to be made pursuant to a FINet Obligation.

(b) Buy-In Procedure

If CDS has not delivered all of the Securities owing to a Participant under a FINet Obligation, then that Participant may request CDS to Settle the then-outstanding FINet Obligation on its original Value Date. If CDS receives such a request to Settle a partial or delayed delivery, CDS may require any Participant who has a FINet Obligation to deliver Securities of that issue to CDS to make such delivery. Upon such request by CDS, that Participant shall be required to Settle in full the

forced-on FINet Obligation by the time prescribed and shall not be permitted to make a partial delivery or to delay delivery. If the Participant fails to Settle a forced-on FINet Obligation in full, then CDS may at any time execute a buy-in of the Participant's delayed or partial delivery. When CDS executes a buy-in, the forced-on FINet Obligation shall be terminated. CDS may appoint an agent to purchase the Securities required for the buy-in, and the purchase shall be made on such terms as CDS deems commercially reasonable taking into consideration the need of CDS to receive prompt delivery of such Securities. If CDS makes such a purchase, the purchase price of such Securities, and all costs and expenses incurred by CDS in connection with the purchase, shall be an amount immediately due and owing to CDS by the Participant who failed to Settle the forced-on FINet Obligation.

7.3.9 Default after Settlement

Once a FINet Obligation has been Settled, the FINet Obligation shall no longer be distinguished from any other Trades Settled for the Participant. If the Participant is suspended after Settlement of the FINet Obligation, CDS shall take steps with respect to that suspension without regard for the fact that the obligation in respect of which the Participant has defaulted included debits or credits arising from the Settlement of the FINet Obligation. Without limiting the generality of the foregoing, CDS may take the steps set out in Rule 9.2 to collect payment from any Surety and from the other Members of any Credit Ring of which the Defaulter is a Member, and the steps set out in Rule 9 generally.

7.3.10 Close-Out Process

(a) Actions by CDS

Upon the termination or suspension of a FINet Participant, CDS shall:

(i) Settle FINet Obligations due on that Value Date with each Participant other than the Defaulter, but such Settlement may be delayed until after completion of the close-out process for the Defaulter in accordance with this Rule;

(ii) terminate all outstanding FINet Obligations of that Defaulter (including FINet Obligations that were due to Settle on the date of suspension and FINet Obligations with future Value Dates);

(iii) determine the close-out amount for each terminated FINet Obligation;

(iv) determine the net termination value for all of FINet Obligations of that Defaulter, by netting or setting off all close-out amounts that are losses to CDS against all close-out amounts that are gains to CDS; and

(v) take any steps under Rule 9.

~~CDS may decide not to take all or any such steps in respect of a suspended Participant, in which event the notice of suspension will indicate which steps are to be taken.~~

~~(b) Calculation of Close-Out Amounts~~

~~The close-out amount for each FINet Obligation shall be the amount determined by CDS in good faith to be its total loss or gain arising from the failure of that FINet Obligation, including any cost of funding. CDS may enter into a Trade that has the effect of replacing for CDS (to the extent feasible) the economic equivalent of the Defaulter's obligation pursuant to that FINet Obligation to deliver Securities for the corresponding payment or to receive Securities on making the corresponding payment. CDS may in its discretion determine that the replacement Trade shall be a buy/sell, a purchase/repurchase, a repo, a securities loan, or a Trade otherwise structured. If the replacement Trade is to be Settled by a Trade, that Trade may itself be processed in FINet. The cost or gain to CDS of such replacement Trade, including the Marks paid or received on FINet Obligation resulting from the processing of the replacement Trade through FINet, shall be used to calculate the close-out amount of that replaced FINet Obligation. If CDS determines that it is not feasible to enter into a replacement trade, the loss or gain constituting the close-out amount may be determined by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant market.~~

~~(c) Calculation of the Net Termination Value~~

~~CDS shall calculate the net termination value for all of the Defaulter's FINet Obligations terminated upon the suspension of the Participant, which shall be the net of all losses or gains arising from the close-out amount of all FINet Obligations. The net termination value shall be an amount that is immediately due and payable by the Defaulter to CDS.~~

~~(d) Release of Liability~~

~~Each FINet Participant releases and discharges CDS from any liability or claim arising from the exercise of the powers granted pursuant to this Rule 7.3, other than liabilities or claims arising from gross negligence or wilful default.~~

~~7.3.11~~ ~~Withdrawal from FINet~~

~~A Participant may withdraw from FINet by giving notice to CDS of its intention to withdraw. CDS shall inform all of the other Participants making use of FINet that it has received a notice of intention to withdraw from that Participant, and shall give particulars of the withdrawal. The notice shall be effective as of the end of the tenth Business Day following the later of (i) the Business Day on which the Participant gives such notice or (ii) the Business Day on which the Participant, having given such notice, has no outstanding FINet Obligations and has paid the net amount owing by it in respect of FINet Marks. A Participant who has withdrawn from FINet has no obligations pursuant to Rule 5.8 with respect to the obligation of a Defaulter who is suspended after the time at which the Participant's notice of intention to withdraw is effective. Unless the Participant has exercised the CCP Withdrawal Option pursuant to Rule 9.4, a Participant who has given a notice of intention to withdraw continues to be subject to all of its obligations pursuant to Rule 5.8 with respect to the obligation of a Defaulter who is suspended before the time at which the Participant's notice of intention to withdraw is effective.~~ .

~~7.3.12 Transition Provision~~

~~Pursuant to Rule 3.3.10, CDS shall give notice to DetNet Participants that the DetNet Function will be terminated at least 30 days prior to the effective date of the termination of the DetNet Function on [Monday, April 6, 2009].~~

~~Pursuant to Rules 2.2.1, 2.2.2, 2.2.7 and 2.2.8, all eligible DetNet Participants shall be deemed to be eligible for and have applied and been approved to use the FINet Function, and are deemed to be FINet Participants upon the commencement of the FINet Function. At any time after the commencement of the FINet Function, a FINet Participant may withdraw from participation in the FINet Function pursuant to Rule 7.3.11. However, if the withdrawing FINet Participant has outstanding netted Trades and/or original netted Trades that have not yet reached their Value Dates when the DetNet Function is terminated, the FINet Participant shall not withdraw from participation in the FINet Function pursuant to Rule 7.3.11 until 10 Business Days after the FINet Participant no longer has outstanding netted Trades and has paid the net amount owing in respect to their mark-to-the-market obligations related to the original netted Trades.~~

7.3. ~~7.4.~~ CONTINUOUS NET SETTLEMENT FUNCTION

7.3.1 ~~7.4.1~~ Overview of CNS Function

The Continuous Net Settlement Function or CNS is a Function to net eligible Trades. CNS calculates CNS Obligations owing from time to time between a Participant and CDS by novating, on Value Date, the obligations between the Participants arising from an eligible Trade to obligations with CDS and by netting all of a Participant's like obligations with CDS. Each resulting CNS Obligation is a Central Counterparty Obligation that is Settled on its Value Date through the Settlement Service.

7.3.2 ~~7.4.2~~ Eligibility

Pursuant to Rule 2.2.8, the Board may impose such additional qualifications and standards for Participants eligible to use CNS as the Board considers necessary or desirable for the protection of CDS and of other Participants using CNS. CDS shall determine the Trades that are eligible for processing in CNS, based on any characteristic that CDS determines is relevant, including the class of Securities to be delivered in such Trade and the Value Date of the Trade.

A Trade may be processed prior to Settlement through CNS, if CNS applies automatically to that class of Trades or if all of the following conditions are met: (i) both Participants who are parties to the Trade use CNS; (ii) the Security with respect to which the Trade is made is eligible for CNS; and (iii) the use of CNS for the Settlement of that Trade is specified (1) by both Participants who are parties to the Trade, (2) by the Exchange, trading system, service bureau or other third party service provider that reported the Trade on behalf of the Participants, or (3) in the case of Trades processed through the CDSX trade matching function, by either or both of the Participants who are parties to the Trade.

7.3.3 ~~7.4.3~~ Novation of Trades Prior to Settlement

When a Trade is processed in CNS, the Settlement obligations and rights between the Participants arising from the Trade (to deliver Securities and to receive payment, or to receive Securities and to make payment) are extinguished and replaced by corresponding Settlement obligations and rights between each Participant and CDS, with the result that all such obligations of each Participant are owed to CDS and all such rights of each Participant are against CDS. The novated obligations and rights between CDS and each Participant shall be due as of the Value Date of the Trade. To the extent, if any, that the novation of the Settlement obligations and rights affects any of the terms and conditions of the underlying Trade between the Participants that was to be Settled by the Trade, such terms and conditions shall be deemed to be amended, required to be performed and to have effect in a manner consistent with Settlement by CNS processing (unless the Participants expressly agree otherwise).

7.3.4 ~~7.4.4~~ Netting of Novated Trades

Each time a Trade between Participants is processed in CNS, the novated obligations and rights between each Participant and CDS are netted with their like novated obligations and rights in order to calculate the single CNS Obligation with that Value Date, for that issue of Securities and in that currency then-outstanding between that Participant and CDS. One CNS Obligation is a like obligation to another CNS Obligation if each is a CNS Obligation of that Participant to CDS, and of CDS to that Participant, with the same Value Date, denominated in the same currency, for the same issue of Securities, and resulting from other Trades of that Participant previously processed through CNS. A Participant's CNS Obligations are like obligations and may be netted even if under one CNS Obligation, CDS has the obligation to deliver Securities to the Participant and the right to receive payment from the Participant, while under the other

CNS Obligation, CDS has the right to receive Securities from the Participant and the obligation to make payment to the Participant, and *vice versa*. CDS maintains a record of the CNS Obligations of each Participant outstanding from time to time, to record by Value Date for each issue of Securities (i) the obligation of the Participant to deliver Securities to CDS and the right of the Participant to receive payment from CDS, or (ii) the obligation of the Participant to receive Securities from CDS and the right of the Participant to make payment to CDS.

7.3.5 ~~7.4.5~~ CNS Process

The netting of the obligations and rights arising from a novated Trade occurs simultaneously with the novation of that Trade, to calculate a single CNS Obligation due on each Value Date for each issue of Securities and denominated in the same currency. Such novation and netting occur when entries are made in the records maintained by CDS, deleting the Trade between the Participants and recording new or recalculated CNS Obligations between each of the Participants and CDS. The entries for each Trade are processed concurrently on a committed basis, with the result that (i) either all of the entries are made to delete the Trade and record CNS Obligations or none of the entries is made, and (ii) the deletion and the recording occur simultaneously. CDS shall provide Participants with information showing each of the Trades that has been deleted upon being processed in CNS, to assist Participants in reconciling their records. For greater certainty, the fact that CDS provides archival records of the deleted Trades shall not detract from the finality of the novation of any Trade once processed in CNS, and such records shall not constitute evidence of any obligation owing between the Participants to a deleted Trade.

7.3.6 ~~7.4.6~~ Marks

(a) Daily Mark

For each Business Day that a CNS Obligation is outstanding, CDS shall calculate in accordance with the Procedures the daily Mark in respect of that CNS Obligation. The daily Mark reflects the then-current market price of the Securities that are to be delivered or received on Value Date by the Participant in respect of that CNS Obligation. The daily Mark is an amount that shall be paid on that Business Day either to CDS by the Participant owing the CNS Obligation, or by CDS to that Participant. In addition, on that Business Day the payment component of the CNS Obligation is adjusted by the amount of the daily Mark.

(b) Fail Mark

In addition, to encourage the timely Settlement of CNS Obligations, CDS may impose a fail Mark in respect of any delayed or partial delivery of the Securities to be delivered pursuant to a CNS Obligation or in respect of any delayed or partial payment to be made pursuant to a CNS Obligation. CDS shall calculate in accordance with the Procedures the fail Mark, which will reflect the financing cost of the delayed or partial Settlement. If imposed, the fail Mark shall be paid to

CDS by participants who failed to deliver Securities to CDS or to make payment to CDS, and shall be paid by CDS to participants to whom CDS failed to deliver Securities or to make payment. The payment component of the CNS Obligation is not adjusted by the amount of the fail Mark.

(c) Payment of Net Mark

CDS calculates a net amount owing to or by each Participant in respect of Marks for CNS by netting all CNS Marks to be paid or received by that Participant and the net CNS Mark is credited to or debited from the Funds Account of the Participant. No amount shall be drawn under a Line of Credit or a System-Operating Cap in respect of a CNS Mark.

7.3.7 ~~7.4.7~~ Settlement of CNS Obligations

Each CNS Obligation shall be Settled on its Value Date by a Trade between the Participant and CDS, effected by appropriate debits and credits to the Securities Account and Funds Account of CDS and of the Participant, subject to the same edits and restrictions as any other Trade of that Participant.

7.3.8 ~~7.4.8~~ Partial Settlement and Delayed Settlement

(a) Effect of Partial or Delayed Settlement

CDS may delay the receipt of, or take partial receipt of, Securities that it is due to receive under the securities component of a CNS Obligation if it is unable to re-deliver all such Securities under the securities component of another of its CNS Obligations with another participant, and may delay the delivery of, or make partial delivery of, Securities that is due to deliver under the securities component of a CNS Obligation if it has not received the delivery of all such Securities under the securities component of another of its CNS Obligations with another participant. When a partial delivery of Securities is made by a participant or by CDS in Settlement of the securities component of its CNS Obligation, the payment component of that CNS Obligation shall be adjusted accordingly; when a partial payment is made by a participant or by CDS in Settlement of the payment component of its CNS Obligation, the securities component of that CNS Obligation shall be adjusted accordingly. If a CNS Obligation of a participant or of CDS is not Settled in full on its Value Date because any or all of the Securities due to be delivered in respect of the CNS Obligation are not delivered or because any or all of the payments due to be made in respect of the CNS Obligation are not made, then the Value Date of the outstanding CNS Obligation will be changed to the next Business Day, and will be netted with the like CNS Obligations of CDS and of that participant for the new Value Date. The revision and recalculation of the CNS Obligation will continue until it is Settled in full. To encourage the timely Settlement of CNS Obligations, CDS may impose a fee in respect of any delayed or partial delivery of the Securities to be delivered

pursuant to a CNS Obligation or in respect of any delayed or partial payment to be made pursuant to a CNS Obligation.

(b) Buy-In Procedure

If CDS has not delivered all of the Securities owing to a Participant under a CNS Obligation, then that Participant may request CDS to Settle the then-outstanding CNS Obligation on its then-current Value Date. If CDS receives such a request to Settle a partial or delayed delivery, CDS may require any Participant who has a CNS Obligation to deliver Securities of that issue to CDS on that Value Date to make such delivery. Upon such request by CDS, that Participant shall be required to Settle in full the forced-on CNS Obligation by the time prescribed and shall not be permitted to make a partial delivery or to delay delivery. If the Participant fails to Settle a forced-on CNS Obligation in full, then CDS may at any time execute a buy-in of the Participant's delayed or partial delivery. When CDS executes a buy-in, the forced-on CNS Obligation shall be terminated. CDS may appoint an agent to purchase the Securities required for the buy-in, and the purchase shall be made on such terms as CDS deems commercially reasonable taking into consideration the need of CDS to receive prompt delivery of such Securities. If CDS makes such a purchase, the purchase price of such Securities, and all costs and expenses incurred by CDS in connection with the purchase, shall be an amount immediately due and owing to CDS by the Participant who failed to Settle the forced-on CNS Obligation.

7.3.9 ~~7.4.9~~ Re-Novation of CNS Obligation before Settlement

CDS may take the steps set out in this Rule ~~7.4.9~~7.3.9 with respect to an outstanding CNS Obligation that has not yet been Settled (i) if the Security to be delivered becomes permanently ineligible for CNS, or (ii) if the Security to be delivered becomes temporarily ineligible for CNS in order to facilitate the processing of a re-organization in respect of that Security or in order to facilitate the processing of an entitlement by DTC or NSCC in respect of that Security. In such event, CDS may novate the outstanding CNS Obligation to a Trade between Participants. As a result, the outstanding CNS Obligation shall be deleted from CNS and the rights and obligations between CDS and the Participant under the deleted CNS Obligation shall be extinguished. To replace the deleted CNS Obligation, CDS shall create one or more Trades with a Trade-for-Trade mode of settlement indicator between CNS Participants who had, before the deletion, corresponding CNS Obligations. The Participants who are parties to the newly created Trade that replaces the deleted CNS Obligation may not have previously been parties to any Trade in the affected Security with one another. Upon the deletion of an outstanding CNS Obligation, any obligation to deliver Securities and any right to receive Securities, and any obligation to make payment and any right to receive payment, between CDS and the Participant arising from the deleted CNS Obligation, are extinguished and replaced by the rights and obligations of the Participants to deliver Securities and make payment arising from the newly created Trade, and CDS shall have no further obligation or right with respect to the deleted CNS Obligation.

7.3.10 ~~7.4.10~~ Conversion of CNS Trade Before Processing

CDS may take the steps set out in this Rule ~~7.4.10~~7.3.10 with respect to a Trade with a CNS mode of settlement indicator that has not yet been processed through CNS Function if the Security to be delivered becomes ineligible for CNS either permanently, or temporarily to facilitate the processing of an entitlement or re-organization in respect of that Security. In such event, CDS may change the mode of settlement indicator on the Trade to a Trade-for-Trade mode of settlement. As a result, the outstanding Trade shall be converted into a Trade with a Trade-for-Trade mode of settlement indicator to be Settled between the Participants who were the parties to the original Trade. When the Security later becomes eligible for CNS, a Trade-for-Trade mode of settlement indicator on any outstanding Trade in that Security (including a newly created Trade under Rule ~~7.4.9~~7.3.9) may be changed to a CNS mode of settlement indicator, if the Trade is eligible for processing through the CNS Function.

7.3.11 ~~7.4.11~~ Default after Settlement

Once a CNS Obligation has been Settled, the CNS Obligation shall no longer be distinguished from any other Trades Settled for the Participant. If the Participant is suspended after Settlement of CNS Obligation, CDS shall take steps with respect to that suspension without regard for the fact that the obligation in respect of which the Participant has defaulted included debits or credits arising from the Settlement of the CNS Obligation. Without limiting the generality of the foregoing, CDS may take the steps set out in Rule 9.2 to collect payment from any Surety and from the other Members of any Credit Ring of which the Defaulter is a Member, and the steps set out in Rule 9 generally.

7.3.12 ~~7.4.12~~ Close-Out Process

(a) Actions by CDS

Upon the termination or suspension of a CNS Participant, CDS shall:

(i) Settle CNS Obligations due on that Value Date with each Participant other than the Defaulter, but such Settlement may be delayed until after completion of the close-out process for the Defaulter in accordance with this Rule;

(ii) terminate all outstanding CNS Obligations of that Defaulter;

(iii) determine the close-out amount for each terminated CNS Obligation;

(iv) determine the net termination value for all of CNS Obligations of that Defaulter, by netting or setting off all close-out amounts that are losses to CDS against all close-out amounts that are gains to CDS; and

(v) take any steps under Rule 9.

CDS may decide not to take all or any such steps in respect of a suspended Participant, in which event the notice of suspension will indicate which steps are to be taken.

(b) Calculation of Close-Out Amounts

The close-out amount for each CNS Obligation shall be the amount determined by CDS in good faith to be its total loss or gain arising from the failure of that CNS Obligation, including any cost of funding. CDS may enter into a Trade that has the effect of replacing for CDS (to the extent feasible) the economic equivalent of the Defaulter's obligation pursuant to that CNS Obligation to deliver Securities for the corresponding payment or to receive Securities on making the corresponding payment. CDS may in its discretion determine that the replacement Trade shall be a buy/sell, a purchase/repurchase, a repo, a securities loan, or a Trade otherwise structured. If the replacement Trade is to be Settled by a Trade, that Trade may itself be processed in CNS. The cost or gain to CDS of such replacement Trade, including the Marks paid or received on the CNS Obligation resulting from the processing of the replacement Trade through CNS, shall be used to calculate the close-out amount of that replaced CNS Obligation. If CDS determines that it is not feasible to enter into a replacement trade, the loss or gain constituting the close-out amount may be determined by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant market.

(c) Calculation of the Net Termination Value

CDS shall calculate the net termination value for all of the Defaulter's CNS Obligations terminated upon the suspension of the Participant, which shall be the net of all losses or gains arising from the close-out amount of all CNS Obligations. The net termination value shall be an amount that is immediately due and payable by the Defaulter to CDS.

(d) Release of Liability

Each CNS Participant releases and discharges CDS from any liability or claim arising from the exercise of the powers granted pursuant to this Rule ~~7.4,~~7.3, other than liabilities or claims arising from gross negligence or wilful default.

7.3.13 ~~7.4.13~~ Withdrawal from CNS

A Participant may withdraw from CNS by giving notice to CDS of its intention to withdraw. CDS shall inform all of the other Participants making use of CNS that it has received a notice of intention to withdraw from that Participant, and shall give particulars of the withdrawal. The notice shall be effective as of the end of the tenth Business Day following the later of (i) the Business Day on which the Participant gives such notice or (ii) the Business Day on which the Participant, having given such notice, has no outstanding CNS Obligations and has paid the net amount owing by it in respect of CNS

7.4. ~~7.5.~~ PROCESSING OF SETTLEMENTS

7.4.1 ~~7.5.1~~ Settlement Processes

A pending Trade or outstanding Central Counterparty Obligation is considered for Settlement on its Value Date. There are ~~four~~three Settlement processes: the Real Time TFT Settlement Process (the Real Time TFT Process), the Real Time Continuous Net Settlement Process, and the Combined Batch Net Settlement/Continuous Net Settlement Process (the Combined Batch/CNS Process) ~~and the FINet Real Time Settlement Process~~.

7.4.2 ~~7.5.2~~ Real Time TFT Process

The Real Time TFT Settlement Process:

(a) is run throughout the time the system is operating;

(b) processes Settlement of pending Trades that have a Trade-for-Trade mode of settlement indicator (including Pledges.);

(c) does not novate or net newly reported Trades to create new Central Counterparty Obligations; and

(d) Settles a Trade only if the entire Trade can be Settled except when such Trade is reported by a Third Party Clearing System as described in Rule 7.2.7

If a Trade does not pass the pre-settlement edits in its entirety, it is not partially Settled and remains a pending Trade that will be reconsidered for Settlement.

When the Real Time TFT Process effects the Settlement of a Trade, amounts are used under the System-Operating Cap and Lines of Credit (if required) at the same time that Securities are delivered pursuant to Rule ~~7.6.2~~7.5.2 or Rule ~~7.6.4~~7.5.4 and payment is made pursuant to Rule ~~7.6.5.~~7.5.5. All of the entries required for each Settlement are processed on a committed basis, with the result that either all of the entries (including all entries to Funds Accounts and Securities Accounts and all entries using amounts under System-Operating Caps and Lines of Credit in respect of negative Funds Account balances) required to complete that Settlement are made, or, if for any reason any of the entries cannot be made, then none of the entries are made and the Trade is not Settled.

7.4.3 ~~7.5.3~~ Real Time Continuous Net Settlement Process

The Real Time Continuous Net Settlement Process:

(a) is run continuously each day as a discrete process in accordance with the Procedures;

(b) processes Settlement of outstanding Central Counterparty Obligations for CNS .;

(c) does not usually novate or net newly reported Trades to create new Central Counterparty Obligations, but may be used by CDS in its discretion to novate and net newly reported Trades that have a CNS mode of settlement indicator in order to calculate new Central Counterparty Obligations, in which event it will also calculate and process the related Marks;

(d) Settles an outstanding Central Counterparty Obligation either in its entirety or partially;

(e) applies the pre-settlement system edits described in Rule 5.13 to the Securities and Funds Account balances resulting from the Settlement of each individual outstanding Central Counterparty Obligation.

When the Settlement of a Central Counterparty Obligation is effected by the Real Time Continuous Net Settlement Process, amounts are used under the System-Operating Cap and Lines of Credit at the same time that Securities are delivered pursuant to Rule ~~7.6.2~~7.5.2 or Rule ~~7.6.4~~7.5.4 and payment is made pursuant to Rule ~~7.6.5.~~7.5.5. All of the entries required for each Settlement processed are processed on a committed basis, with the result that either all of the entries (including all entries to Funds Accounts and Securities Accounts and all entries using amounts under System-Operating Caps and Lines of Credit in respect of negative Funds Account balances) required to complete that Settlement are made, or, if for any reason any of the entries cannot be made, then none of the entries are made and the Central Counterparty Obligation is not Settled.

7.4.4 ~~7.5.4~~ Combined Batch/CNS Process

The Combined Batch Net Settlement/Continuous Net Settlement Process:

(a) is run once each day as a discrete process before the Real Time TFT Process or the Real Time Continuous Net Settlement Process is run, and may be run at additional times if CDS considers such action desirable to optimize Service functionality;

(b) processes Settlement of any pending Trade (other than a Pledge) or outstanding Central Counterparty Obligation;

(c) novates and nets newly reported Trades that have a CNS mode of settlement indicator, to calculate new Central Counterparty Obligations;

(d) calculates and processes Marks for Central Counterparty Obligations;

(e) Settles an outstanding Central Counterparty Obligation either in its entirety or partially;

(f) Settles a Trade only if the entire Trade can be Settled;

(g) applies the pre-settlement system edits described in Rule 5.13 to the projected final net Securities and Funds Account balances resulting from the Settlement of all Trades and Central Counterparty Obligation in the batch, and not to the balances resulting from the Settlement of each individual Trade or Central Counterparty Obligation.

The Combined Batch/CNS Process Settles a pending Trade or outstanding Central Counterparty Obligations only if all of the resulting Account balances pass the pre-settlement edits. If not, the pending Trade is removed from the batch (and not considered for partial Settlement), and the outstanding Central Counterparty Obligation is considered for partial Settlement in accordance with Rule ~~7.5.7.~~7.4.6, until those remaining can be Settled within the limitations set by the pre-settlement edits. Trades removed from the batch remain pending Trades to be reconsidered for Settlement. After such removals, the Trades and Central Counterparty Obligations then remaining are Settled in a batch.

The entries for each batch are processed on a committed basis, with the result that either all of the entries (including all entries to Funds Accounts and Securities Accounts and all entries using amounts under System-Operating Caps and Lines of Credit in respect of negative Funds Account balances) required to complete those Settlements are made, so that all the Trades and Central Counterparty Obligations remaining in the batch are Settled, or, if for any reason the batch cannot be completed, none of the entries are made and no Trade or Central Counterparty Obligation is Settled by that batch. All entries required to effect all of the Settlements in a particular batch are made concurrently, with the result that all the Trades and Central Counterparty Obligations remaining in the batch are Settled simultaneously.

7.4.5 ~~7.5.5~~ Account Entries Resulting from Batch Process

(a) Funds Account Entries

For each Trade Settled by the Combined Batch/CNS Process that includes payment, an entry is made debiting the Funds Accounts maintained for the payor Participant and an entry is made crediting the Funds Accounts maintained for the payee Participant. For each Central Counterparty Obligation Settled by the Combined Batch/CNS Process that includes payment, an entry is made debiting the Funds Accounts maintained for the payor Participant (or CDS) and an entry is made crediting the Funds Accounts maintained for the payee Participant (or CDS). Since all of the debit and credit entries required to effect all of the Settlements in a particular batch are made simultaneously, no interim Funds Account balance can be calculated for each entry and only the Funds Account balance resulting from the Settlement of all such Trades and Central

Counterparty Obligations records funds owing between CDS and the Participant in accordance with Rule 8.1.1. Accordingly, only the resulting Funds Account balance (if negative) is used under the System-Operating Cap allocated to that Funds Account and the Lines of Credit established for that Ledger. Therefore, no individual entry debiting a Funds Account made in the batch is a forced entry as described in Rule 8.1.3, and the Settlements effected in the batch are made in compliance with Rule 2.4 and Rule 5.10.1.

(b) Securities Entries in Accounts

For each Trade Settled by the Combined Batch/CNS Process that includes the delivery of Securities, an entry is made debiting the Securities balance in an Account maintained for the delivering Participant and an entry is made crediting the Securities balance in an Account maintained for the receiving Participant. For each Central Counterparty Obligation Settled by the Combined Batch/CNS Process that includes the delivery of Securities, an entry is made debiting the Securities balance in an Account maintained for the delivering Participant (or CDS) and an entry is made crediting the Securities balance in an Account maintained for the receiving Participant (or CDS). For each class of Security in which Trade or Central Counterparty Obligations are Settled by batch processing, a single net Securities balance is calculated for each Account affected by the processing. Since all of the debt and credit entries required to effect all of the Settlements in a particular batch are made simultaneously, no interim Account balance is calculated for each entry and only the Account balances resulting from the Settlement of all such Trades and Central Counterparty Obligations record Securities held by CDS for the Participant in accordance with Rule 4.2.4.

(c) Completion of Trades

The debit and credit entries made in the batch to each Account to complete a Trade constitute the Settlement of that Trade by the delivery of Securities between the delivering Participant and the receiving Participant pursuant to Rule ~~7.6.2~~7.5.2 or Rule ~~7.6.4~~7.5.4 and the making of payment between the payee Participant and the payor Participant pursuant to Rule ~~7.6.5.~~7.5.5. The debit and credit entries made in the batch to each Account to complete a Central Counterparty Obligation constitute the Settlement of that Central Counterparty Obligation by the delivery of Securities between CDS and the delivering or receiving Participant (as the case may be) pursuant to Rule ~~7.6.2~~7.5.2 and the making of payment between CDS and the payee or payor Participant (as the case may be) pursuant to Rule ~~7.6.5.~~7.5.5.

~~**7.5.6 FINet Real Time Settlement Process**~~

~~The FINet Real Time Settlement Process:~~

~~(a) is run from system start-up Payment Exchange in Canadian dollars and during the overnight on-line period;~~

~~(b) processes Settlement of FINet Trades that have reached Value Date and are not on hold;~~

~~(c) Settles an outstanding FINet Trade either in its entirety or partially; and~~

~~(d) applies the pre-settlement system edits described in Rule 5.13 to the Securities and Funds Account balances resulting from the Settlement of each Trade and FINet Obligation individually.~~

7.4.6 ~~7.5.7~~ Processing of Settlement of Central Counterparty Obligations

When (i) an outstanding Central Counterparty Obligation is considered for Settlement in any Settlement process, (ii) the Settlement of the entire Central Counterparty Obligation would not pass the pre-settlement edit, but (iii) a partial Settlement of the Central Counterparty Obligation would pass the pre-settlement edits, then the Central Counterparty Obligation may be partially Settled, by the delivery of only some of the Securities required and the making of a corresponding partial payment. As a result of such a partial Settlement of the Central Counterparty Obligation, a revised Central Counterparty Obligation will remain outstanding, to be reconsidered for Settlement.

7.5. ~~7.6.~~ SETTLEMENT

7.5.1 ~~7.6.1~~ Settlement Process

As a result of the processing described in Rule ~~7.5,~~7.4, any or all of the following may occur:

(a) pending Trades are Settled by the delivery of Securities and payment between Participants as described in this Rule ~~7.6~~7.5;

(b) outstanding Central Counterparty Obligations are Settled by the delivery of securities and payment between CDS and a Participant as described in this Rule ~~7.6~~7.5;

(c) Securities Account balances and Funds Account balances are revised by the debits and credits made in respect of such Settlements;

(d) amounts are used under Lines of Credit and System-Operating Caps;

(e) amounts used under Lines of Credit and System-Operating Caps are repaid;

(f) Trades that are not Settled remain pending to be reconsidered for Settlement; and

(g) Central Counterparty Obligations that are not Settled, or are partially Settled, remain outstanding to be reconsidered for Settlement.

All such entries are made simultaneously.

7.5.2 ~~7.6.2~~ Book Delivery of Securities

A transfer of a Security by book delivery is effected by the making of appropriate entries in the Ledgers maintained by CDS debiting and crediting the Accounts of the delivering Participant and the receiving Participant respectively in the quantity of the Security relating to that Trade (or debiting and crediting the Accounts of CDS and the Participant, relating to that Central Counterparty Obligation). The making of such entries effects final and irrevocable delivery of the Security between the Participants with respect to that Trade (or between CDS and the Participant, with respect to that Central Counterparty Obligation).

7.5.3 ~~7.6.3~~ Attornment

The making of an entry by CDS in the Ledgers maintained by CDS to effect the delivery of a Security constitutes the attornment of CDS that the Security so delivered is held for the receiving Participant, and such Security is thereby constructively delivered to the receiving Participant. The making of an entry by CDS in a Securities Account maintained by CDS for a Participant to record a quantity of a Security constitutes the

attornment of CDS that the quantity of that Security so recorded is held for the Participant.

7.5.4 ~~7.6.4~~ Pledge

A Pledge of a Security is effected by the making of appropriate entries in the Ledgers maintained by CDS debiting the Securities Account of the pledgor Participant and crediting the Collateral Account of the pledgee Participant in the quantity of the Securities relating to that Pledge. The Securities credit balance in the Collateral Account of a Participant records the quantity of each Security held by CDS for that Participant. A Pledge of funds is effected by the making of appropriate entries in the Ledgers maintained by CDS debiting the Funds Account of the pledgor Participant and crediting the Collateral Account of the pledgee Participant in the amount of funds relating to that Trade. The funds credit balance in the Collateral Account of a Participant, which records an amount owing by CDS to that Participant, is a financial asset held by CDS for that Participant and subject to its control. The Participant has control and possession of the Securities and financial assets credited to that Participant's Collateral Accounts for all purposes, including the perfection of a security interest. As between the pledgee Participant and the pledgor Participant, and without derogating from the grant of the Surety Security Interest and the Category Credit Ring Security Interests, Pledged Securities and Pledged funds credited to the pledgee Participant's Collateral Account can be dealt with solely in accordance with the instructions of the pledgee Participant, without reference to or consent by the pledgor Participant or to any person claiming through it or as its successor or representative. A Pledge of funds is subject to any repayment terms of any agreement between the Participants, and unless otherwise agreed the pledgor Participant has no right to the repayment of the Pledged funds except upon discharge of the debt or other obligation for which the funds were Pledged. CDS is under no obligation to verify the terms of any Pledge or compliance with the terms thereof by any Participant. So long as the Pledged Securities or funds remain in the Collateral Account of the pledgee Participant to whom they are Pledged, CDS also reflects the delivery of such Securities or funds in the Pledge Account for the pledgor Participant who made the Pledge. The record of the Pledged Securities or Pledged funds shall be deleted from the Pledge Account of the pledgor Participant when the pledgee Participant to whom the Securities or funds were Pledged directs that the Pledged Securities or funds be transferred from its Collateral Account. On Payment Exchange, Pledged funds are transferred from the pledgee's Collateral Account to its Funds Account. When Pledged funds are transferred from the pledgee's Collateral Account to its Funds Account or are transferred at its instructions to the Funds Account of the pledgor Participant, the Pledged funds cease to be a financial asset.

7.5.5 ~~7.6.5~~ Payment

Payment between Participants, or for a Central Counterparty Obligation between CDS and the Participant, is effected by the making of entries debiting the Funds Account or Collateral Account maintained for the payor Participant or CDS and crediting the Funds Account or Collateral Account maintained for the payee Participant or CDS. The making of such entries effects final and irrevocable payment between the Participants, or final

and irrevocable Settlement of the Central Counterparty Obligation between the Participant and CDS. Such entries shall be made by CDS to effect a Funds Transfer, to effect a Pledge, or to Settle a Trade or Central Counterparty Obligation (and if a delivery of Securities is also involved in that Settlement, the payment entries shall be made simultaneously with the making of the entries in the Ledgers maintained by CDS to effect the delivery).

7.5.6 ~~7.6.6~~ Novation Upon Settlement

Upon the making of the entries by CDS to effect delivery of the Securities, any obligation between the Participants arising from the Trade, or between CDS and the Participant arising from the Central Counterparty Obligation, to deliver Securities is extinguished and replaced by the obligation of CDS pursuant to Rule 4.2.4 to deliver to the Participant the Securities shown in the Participant's Securities Account. Upon the making of the entries by CDS to effect payment, any obligation between the Participants arising from the Trade, or between CDS and the Participant arising from the Central Counterparty Obligation, to make such payment is extinguished and replaced by the obligation to make and the right to receive payment on Payment Exchange between the Participants and CDS as recorded in the Participants' Funds Accounts.

7.5.7 ~~7.6.7~~ Finality of Settlement

The making of entries in the Ledgers maintained by CDS to effect a delivery of Securities or a payment effects final and irrevocable delivery or payment to and from the Participants in whose Ledgers such entries are made. If the entries are made to Settle a Central Counterparty Obligation, such entries effect final and irrevocable delivery or payment between CDS and the Participant. The finality of the Settlement of a Central Counterparty Obligation does not affect the separate obligation to make payment on Payment Exchange between CDS and the Participant that is evidenced by any Funds Account balance in a Ledger of a Participant.

9.2. GENERAL DESCRIPTION OF PROCESS ON SUSPENSION

9.2.1 Restriction of System Functionality

Immediately upon the suspension of a Participant, CDS shall restrict the right of the Participant to use all system functionality for all Services. Such restriction may be lifted in whole or in part by CDS in its discretion as may be required to complete an orderly discharge of the Participant's obligations in accordance with this Rule 9.

9.2.2 Central Counterparty Functions

If a Participant using any Central Counterparty Function is suspended, then the following steps shall be taken in addition to the other steps described in this Rule 9.

(a) Marks

Notwithstanding the suspension of the Participant, Marks shall continue to be calculated and owed in respect of each of its outstanding Central Counterparty Obligations.

(b) Unprocessed Trades

Any of its Trades that have not yet been processed through ~~FINet or~~ CNS shall be ineligible for ~~such Functions~~the CNS Function.

9.2.3 Retention of Positive Balances upon Suspension

If a suspended Participant has a positive balance denominated in any currency credited to any Funds Account or Restricted Collateral Account in any Ledger, then CDS shall not pay such positive balance to the suspended Participant. CDS shall exercise its right of retention in respect of any such positive balance. CDS may debit the positive balance from the suspended Participant's Ledger and credit it to a Collateral Administration Ledger of CDS.

9.2.4 Effect of Suspension on Book Entry Payment Method

When a Participant is suspended, the attribution of amounts pursuant to the Book Entry Payment Method shall be reversed in accordance with Rule 8.4 and any payment made by a Qualified Banker on behalf of a suspended Customer shall be treated as set out in Rule 8.4.14.

9.2.5 Payment Exchange

Immediately upon the suspension of a Participant, CDS shall take the steps in accordance with Rule 5 necessary to ensure that Payment Exchange is completed for that day, including:

9.4.12 Credit Ring Obligation for Other Defaulters

A Withdrawing CCP Participant continues to be subject to its Fund Credit Ring obligations pursuant to Rule 5.7, as modified by this Rule 9.4, with respect to the obligation of any Defaulter who uses the CCP Function from which it is withdrawing and who is suspended on or before the day that is fifteen Business Days after the day on which the Withdrawing Participant exercised the CCP Withdrawal Option. The total amount paid by the Withdrawing CCP Participant with respect to the obligation of all Defaulters who are suspended after the suspension of the Suspended CCP Participant shall not exceed the amount of its Final Contribution less any amount paid by the Withdrawing CCP Participant in respect of its Fund Credit Ring obligations for the Suspended CCP Participant. In respect of such Defaulters who use the CNS Function.:

(a) the proportionate share of the Withdrawing CCP Participant and of each other Fund Member shall be based on their respective Contributions to the Fund at the time of the suspension (which for the Withdrawing CCP Participant shall be considered to be its Post-Withdrawal Contribution), provided that if the then unapplied amount of the Withdrawing CCP Participant's Final Contribution is insufficient to pay its proportionate share in full, the proportionate shares of each other Fund Member shall be increased accordingly; and

(b) the Final Contribution of the Withdrawing CCP Participant shall be applied first in respect of the Suspended CCP Participant and then any excess shall be applied in respect of the first successive Defaulter and any excess remaining thereafter shall be applied in respect of any other Defaulter in the order in which such Defaulters are suspended.

~~In respect of such Defaulters who use FINet:~~

~~(a) the proportionate share of the Withdrawing CCP Participant shall be calculated as set out in the Procedures;~~

~~(b) the Final Contribution of the Withdrawing CCP Participant shall be applied first in respect of the Suspended CCP Participant and then any excess shall be applied in respect of the first successive Defaulter and any excess remaining thereafter shall be applied in respect of any other Defaulter in the order in which such Defaulters are suspended; and~~

(c) ~~the proportionate share of each Fund Member other than the Withdrawing CCP Participant for the obligations of any such Defaulter shall be calculated in accordance with the Procedures after taking into consideration the amount paid by the Withdrawing CCP Participant in respect of that Defaulter~~.

9.4.13 Refund of Final Contribution

A Withdrawing CCP Participant shall not be entitled to any refund of its Final Contribution until the later of (i) the date on which it has Settled all of its Central Counterparty Obligations arising from the CCP Function from which it is withdrawing

and (ii) the date on which CDS has determined its Fund Credit Ring obligations with respect to the Suspended CCP Participant and all Defaulters who used that CCP Function and the Withdrawing CCP Participant has paid such obligations.

9.4.14 Discretion re Selective Processing in CNS ~~and FINet~~

(a) Discretion re Selective Processing in CNS ~~and FINet~~

A Withdrawing CCP Participant shall Settle all of its outstanding Central Counterparty Obligations for the CCP Function from which it is withdrawing as soon as possible after it has exercised the CCP Withdrawal Option. Notwithstanding the restriction of the Withdrawing CCP Participant's right to use the CCP Function, CDS may at the request of the Withdrawing Participant permit particular eligible Transactions of that Withdrawing CCP Participant to be processed through CNS ~~or FINet~~, provided that CDS determines such processing is likely to reduce the Withdrawing CCP Participant's outstanding Central Counterparty Obligations for that CCP Function. The selection of Transactions to be so processed shall be made on the basis of criteria set out in the Procedures.

(b) Exercise of Discretion

In exercising its discretion under this Rule 9.4.14, CDS shall take reasonable care in what it, in good faith, considers to be in the best interests of CDS and of all Participants. CDS shall not be liable to any Participant including the Withdrawing CCP Participant for any loss, damage, cost, expense, liability or claim arising from the exercise of its discretion to select particular eligible Transactions of a Withdrawing CCP Participant for processing through CNS ~~or FINet~~.

9.4.15 Reinstatement

A Participant who has exercised the CCP Withdrawal Option may at any time be reinstated by the Board of Directors upon notice to CDS of the Participant's request for reinstatement and on conditions determined by the Board, provided the Participant is then eligible to use the CCP Function, pays any reinstatement fee determined by the Board and meets any other conditions set by the Board. The Board of Directors may approve or reject a request for reinstatement in its discretion. CDS may require that a Participant's application for reinstatement be deferred for a minimum period of time following its withdrawal from a CCP Function.

(a) shall confirm or reject the Deposit and Withdrawal of Securities and shall provide a Closing Balance Report to CDS, with respect to all CDSX eligible Securities for which it is the Transfer Agent;

(b) may act as a Depositary Agent (including a CDSX Depositary Agent) or Entitlements Processor;

(c) may not effect Settlements (including a transfer or Pledge of Securities) or hold Securities credited to its Ledger except in its capacity as a CDSX Depositary Agent or Entitlements Processor or as permitted when classified under another limited purpose Participant category;

(d) may not make Lines of Credit available to other Participants;

(e) may not use Lines of Credit made available by an Extender of Credit or by the Active Federated Participant;

(f) may not use the CNS ~~or FINet Functions~~Function;

(g) may not act as the ISIN Activator or Securities Validator for a Security; and

(h) may not act as a Custodian.

11.2.5 Exclusion from Credit Ring and Debit Ring

A TA Participant is not a member of a Credit Ring or of a Debit Ring.

11.2.6 Representation of TA Participant

A TA Participant represents and warrants to CDS and to all other Participants that its actions with respect to each eligible Security pursuant to this Rule are within its capacity and within the scope of the authorization received by it from the Issuer of the eligible Security. Each TA Participant shall be liable as principal for all of its obligations pursuant to this Rule, including obligations arising from representations and warranties made by it, whether it is acting on its own behalf or on behalf of an Issuer. The foregoing representation and warranty by each TA Participant, and its assumption of obligations under this Rule 11 shall not limit any liability that may attach to the Issuer of any eligible Security or to the TA Participant as the Transfer Agent of the Issuer under general principles of law or by operation of any applicable statute or regulation. A TA Participant is not required to perform any obligation to CDS if such performance would conflict with an order of a court or Regulatory Body having jurisdiction over the TA Participant.

11.2.7 Limitation of Responsibility of TA Participant

A TA Participant shall have no discretion with respect to the registration, holding or transfer of Securities Deposited into the Depository Service and shall act only in accordance with the directions of CDS. In accordance with the directions of CDS, such

CDS Participant Rules (Release 2013-XX-XX)

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"Bank of Canada" means the central bank of Canada formed under the *Bank of Canada Act* (Canada).

"Board of Directors" or "Board" means the Board of Directors of CDS.

"Bond Rating Service" means a service providing to the public a rating of the short-term and long-term debt issued by Issuers (including Participants) and includes:

(i) "DBRS" Dominion Bond Rating Service;

(ii) "Moody's" Moody's Bond Record; and

(iii) "S&P" The Bond Guide issued by Standard & Poor's Rating Services.

"Book Entry Payment Method" means the process described in Rule 8.4 by which the payment obligations owing between a Participant and CDS may be discharged on Payment Exchange.

"Business Day" means any day on which the CDSX system is available to process Transactions.

“CA Liability Record” has the meaning ascribed to that term in Rule 6.8.5.

"CALMS" means the Corporate Action Liability Management Service described in Rule 6.8.5.

"CBA" means The Canadian Bankers Association.

"CCP Cap" means the threshold amount with respect to the CCP Functions that if exceeded requires the pledging of CCP Collateral, which threshold amount is established in accordance with Rule 5.14.

"CCP Collateral" means CCP Collateral as the term is defined in Rule 5.2.4.

"CCP Contributions Total" means an amount determined in accordance with the Procedures as described in Rule 5.14 taking into account the Contributions required to be made by the Participant to the Funds for all of the CCP Functions used by it.

"CCP Function" means the CNS Function for processing Trades by novation and netting prior to Settlement.

"CCP Withdrawal Option" means the CCP Withdrawal Option described in Rule 9.4.

“CDCC” means the Canadian Derivatives Clearing Corporation.

“CDCC Interface” means the process by which CDS reports Trades identified with a Mode of Settlement of SNS to CDCC for clearing prior to such Trades being settled through the CDS Services.

as determined by the Participant's auditors in the financial statements filed by the Participant with the Canadian Regulatory Body that has primary jurisdiction over the Participant, provided that the Board may from time to time determine how Capital shall be calculated for the purposes of a particular Rule

"Capped Participant" means a Participant who is an Extender, Settlement Agent, Active Federated Participant or RCP Receiver and who has a System-Operating Cap.

"Category Credit Ring" means one of the groups of Participants described in Rule 5.9 that are classified into a particular category and that guarantee the payment to CDS of certain obligations of all other Members of that Category Credit Ring. "Category Credit Ring Agreement" means one of the common form agreements among all Members of certain Category Credit Rings referred to in Rule 2.3.3. "Category Credit Ring Collateral" means the collateral described in Rule 5.11.2 that is subject to Category Credit Ring Security Interests. "Category Credit Ring Security Interests" means the security interests granted by a Member of a Category Credit Ring described in Rule 5.11.2.

"Central Counterparty Obligation" means the reciprocal obligations and rights between CDS and a Participant as the result of the processing of Trades, prior to Settlement, in the CNS Function. Under a Central Counterparty Obligation, (i) either CDS or the Participant has an obligation to deliver Securities and a right to receive payment for such delivered Securities, and (ii) the other party has the corresponding right to receive Securities and the corresponding obligation to make payment. A Central Counterparty Obligation is a CNS Obligation.

“Collateral” means, with respect to a suspended Participant:

(i) its Contributions to a Collateral Pool;

(ii) its Contributions to a Fund;

(iii) its Settlement Service Collateral;

(iv) its Specific Collateral; and

(v) its CCP Collateral.

"Collateral Account" means an Account to record Securities and funds that have been Pledged to the Participant and that are held by CDS for that pledgee Participant. A "Restricted Collateral Account" is a Collateral Account that is a Risk Account. "Collateral Administration Ledger" means a CDS Ledger used for the management and control of collateral held by CDS, as described in Rule 5.3. "Collateral Pool" means one of the collateral pools established by certain Category Credit Rings pursuant to Rule 5.12.

"Collateral Pool Contribution" means the contribution made to its Collateral Pool by a Member of a Category Credit Ring.

"Fedwire" means the system for the transfer of money operated by the Federal Reserve System of the United States of America.

"Final Contribution" means the Fund Contribution, to the Fund for the CCP Function from which the Withdrawing CCP Participant intends to withdraw, which is the total of the Withdrawal Contribution and the Original Contribution of the Withdrawing CCP Participant, as calculated pursuant to Rule 9.4.7.

"Financial Institution" means any one of the following:

(i) a bank named in Schedule I or II to the *Bank Act* (Canada);

(ii) an institution regulated pursuant to an *Act respecting financial services cooperatives* (Québec);

(iii) a trust company or corporation, a loan company or corporation, a credit union, a savings and credit union or a credit union central, which is incorporated and regulated under the laws of Canada or any province or territory thereof; or

(iv) a crown corporation created pursuant to and governed by the *Alberta Treasury Branches Act* (Alberta).

"Foreign Custodian" means a Person who has been appointed by CDS to perform the duties of a Foreign Custodian for CDS with respect to Securities held for Participants in the Depository Service.

"Foreign Institution" means a Person:

(i) that is incorporated, established or formed under the laws of a jurisdiction situate outside Canada or that is primarily regulated under the laws of a jurisdiction situate outside Canada; and

(ii) that is a broker or dealer trading in Securities, a bank or savings bank, a trust company or corporation, a loan company or corporation, an insurance company or corporation, a securities clearing corporation or depository, a central bank or any other Person trading in Securities.

"Formula Amount" means a factor used in the calculation of the System-Operating Cap of a Capped Participant, as described in Rule 5.10.

"Function" means a method of processing Trades in respect of a Service. CDS may make available more than one Function in respect of any given Service. Functions include the Functions described in the Procedures and the CNS Function for processing Trades by novation and netting prior to Settlement.

"Fund" means one of the Funds established pursuant to Rule 5.7 with respect to a Service or Function.

"Fund Contribution" means the contribution made by each Fund Member pursuant to Rule 5.8, in which the Fund Member grants a security interest in favour of CDS.

"Fund Credit Ring" means one of the groups of Participants described in Rule 5.7 that are Members of a Fund and that guarantee the payment to CDS of certain obligations of all other Members of that Credit Ring.

"Fund Member" means a Participant who makes use of the Service or Function in respect of which a Fund is established and that is required to contribute to such Fund.

"funds" means the obligation owing to CDS by a Participant or by CDS to a Participant, which is evidenced by a negative or positive balance respectively in that Participant's Funds Account.

"Funds Account" means an Account to record by currency the net amount from time to time owing between CDS and the Participant arising from the Participant's use of the Depository Service and the Settlement Service.

"Funds Transfer" means a Transaction between any two Participants, or between CDS and any Participant, by which the Funds Account of one of them is debited with a certain amount and the Funds Account of the other is credited with a corresponding amount.

"General Account" means a Securities Account that is a Risk Account.

"Government Body" means the Government of Canada or the Government of any province or territory of Canada or any municipality in Canada, or any of their agencies.

"Hypothec" has the meaning set forth in Rule 5.2.9. "Inter-Surety Agreement" means the agreement made among all Sureties referred to in Rule 2.4.9.

"ISIN Activator" means a Participant who performs the activities of an ISIN Activator set out in Rule 2.5.3.

"Issuer" includes a Person other than an individual that meets one or more of the following criteria (including, where applicable, a Participant):

"User" means an individual who on behalf of a Participant is given the ability (whether by the assignment of an Authentication Mechanism or otherwise) to access computer processing activities for real time or batch Services.

"User Administrator" means an individual appointed by a Participant to give individual Users the ability on behalf of the Participant to access computer processing activities for real time or batch Services.

"User Guide" means one of the user guides in the form prescribed by CDS from time to time for a Service, and includes the on-line help terminal video displays made available as part of the systems which are accessed in accordance with the User Guides. and

"Value Date" means the date on which the parties to a Trade Obligation have agreed that the Trade Obligation is to be Settled.

"Withdrawal Account" means an Account to record Securities held by CDS for the Participant, with respect to which the Participant has made a withdrawal request that has not yet been confirmed.

"Withdrawal Contribution" means the additional Fund Contribution to the Fund for the CCP Function in respect of which the Withdrawing CCP Participant has exercised the CCP Withdrawal Option, which is made by the Withdrawing CCP Participant upon giving notice to CDS of its exercise of the CCP Withdrawal Option.

"Withdrawing CCP Participant" means a Participant who has exercised the CCP Withdrawal Option.

agreement between a securities and derivatives clearing house and a clearing member within the meaning of section 13.1 of that Act.

1.3.13 Eligible Financial Contract

CDS and each Participant acknowledge that:

(i) a Central Counterparty Obligation constitutes an eligible financial contract between CDS and the Participant;

(ii) the obligations of a Participant and of CDS arising from the Settlement of a Trade or any other Transaction, for CDS to deliver to the Participant the Securities shown in the Participant's Securities Account and for the Participant to make or receive payment on Payment Exchange as recorded in the Participant's Funds Account, constitute an eligible financial contract between CDS and the Participant;

(iii) the obligations of a Participant and of CDS arising from the Cross-Border Services constitute an eligible financial contract between CDS and the Participant; and

(iv) each of the Participant Agreement, the Rules and the Legal Documents constitute master agreements in respect of such eligible financial contracts and accordingly are also eligible financial contracts between CDS and each Participant, and between Participants.

The Rules and the Legal Documents shall be interpreted so as to ensure that CDS or a Participant, as the case may be, is accorded the rights and powers of a party to an eligible financial contract pursuant to the *Bankruptcy and Insolvency Act*, the *Companies' Creditors Arrangement Act,* the *Winding-Up and Restructuring Act,* the *Canada Deposit Insurance Corporation Act* or any similar legislation.

1.3.14 Finality

Entries are made in the Ledgers maintained for Participants and for CDS to record Transactions involving two Participants or CDS and a Participant, including the deposit, withdrawal and delivery of Securities, the novation and netting of Transactions through the CNS Function, and the making of payment. Such entries are final and irrevocable when made. The settlement of a payment obligation between CDS and a Participant is final and irrevocable once made, and however made, including by payment to or from an account of CDS at Bank of Canada, by a payment message through Fedwire, by payment to or from an account of CDS at its banker for any Cross-Border Service, or by payment to or from the Participant's Qualified Banker or Designated Payment Agent. Such final and irrevocable entries and payments cannot be deleted, adjusted, reversed, repaid or set aside. CDS and the Participants shall be entitled to an accounting with respect to any Transaction, but any errors may be corrected only by the making of new entries or payments in accordance with the Rules as the circumstances may require.

transfer Securities to the Ledger of another Participant through the Settlement Service. On behalf of the Participants, and on CDS's own behalf and on behalf of other Participants pursuant to the security interests granted by the Participants pursuant to Rule 5, with respect to each Security deposited in the Depository Service, CDS has control and possession of the Security, or as an entitlement holder has a security entitlement and the corresponding rights and property interest with respect to a financial asset credited to a securities account maintained for CDS by a Foreign Custodian. On request by a Participant, CDS shall deliver to the Participant the Securities held by CDS for the Participant as shown in the records of CDS for the Participant's Securities Accounts.

1.6.5 Settlements

Settlement is effected on a delivery versus payment basis. Trades are reported to CDS to be Settled by the delivery of Securities and the making of payment. A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using the CNS Function to process Central Counterparty Obligations. Trades are subject to various edits, including the Aggregate Collateral Value Edit to monitor the amount of collateral available to support the Participant's obligations.

Settlement of a Trade is effected by CDS making entries to the Ledgers maintained by it for the Participants who are parties to the Trade, to debit and credit the appropriate Accounts so as to make payment and deliver Securities between the Participants. Securities may be delivered by the book delivery of Securities held in the Depository Service. If a Trade is Settled using Certificate Based Settlement, the Securities are delivered by the physical delivery of a Security Certificate evidencing the Securities. Upon Settlement of a Trade, the obligations between the Participants to deliver Securities and to make payment are extinguished and replaced by obligations between CDS and the Participants to deliver the Securities shown in the Participants' Securities Accounts and to make payment as recorded in the Participants' Funds Accounts.

1.6.6 Payment Exchange

During Payment Exchange for each currency on each Business Day, by means of Acceptable Payments, CDS receives payment from and makes payment to Participants of obligations arising from their use of CDSX. The obligations owing between a Participant and CDS may be discharged on Payment Exchange by means of the Book Entry Payment Method or by an Acceptable Payment.

1.6.7 Credit Rings

All Participants (other than Bank of Canada) are Members of a Category Credit Ring, by which each Member guarantees the payment to CDS of certain obligations of the other Members of that Category Credit Ring. All Participants using certain Functions are Members of a Fund Credit Ring for that Function, by which each Member guarantees

agreement between such Participants. Where a Trade is submitted to CDS with a Third Party Clearing System Mode of Settlement, and where such Trade is rejected by the TPCS, CDS may, in accordance with the Procedures, and at any time prior to Settlement, modify the Mode of Settlement of a confirmed Trade between two Participants from its initial Mode of Settlement.

3.3.10 Termination of a Service or Function

CDS intends to offer the Services indefinitely but may suspend or terminate the operation of any Service or Function with the approval of the Board of Directors. CDS shall give notice to Participants of any proposal to suspend or terminate any Service or Function, at least 30 days before the effective date of the suspension or termination, provided that such notice may be abbreviated if the suspension or termination is for reasons outside the control of CDS.

5.7. CREDIT RINGS FOR FUNDS

5.7.1 Establishment of Funds

Each Participant who uses the CNS Function must become a Member of the Fund established for that Function:

Each Member of a Fund is part of the Fund Credit Ring. Each Member of a Fund Credit Ring guarantees payment to CDS of certain obligations of a suspended Member pursuant to this Rule 5.7. Each Member of a Fund makes Contributions to that Fund pursuant to Rule 5.8.

5.7.2 Payment by Fund Credit Ring

Each Member of a Fund is also a Member of the Credit Ring for that Fund. If CDS has been unable to collect from a Defaulter who is a Member or a former Member of a Fund for a Function an obligation to CDS arising from the Defaulter's use of such Function, then each other Member of that Fund shall pay to CDS its proportionate share of that obligation forthwith upon request by CDS. If any Member fails or refuses to pay its proportionate share of an obligation pursuant to this Rule 5.7 it will be considered to be a "subsequent Defaulter". Each other Fund Member who makes payment to CDS of its proportionate share of the obligation of a Defaulter and of each subsequent Defaulter will be considered to be a "Survivor". Each other Fund Member, upon request by CDS, shall pay to CDS its proportionate share of the obligation of such subsequent Defaulter, and so on with respect to all failures or refusals of other Members to pay their respective proportionate shares, until the full amount of the obligation owing by the Defaulter to CDS has been paid. References to a Defaulter or a Survivor shall be deemed to refer to a subsequent Defaulter or to a Fund Member that makes payment to CDS of its proportionate share of the obligation of a subsequent Defaulter, respectively, *mutatis mutandis*. The Credit Ring for a Fund has no obligation to CDS with respect to any obligation of a Participant arising from that Participant's use of another Function.

5.7.3 Defaulter's Obligation

The obligation referred to in Rule 5.7.2 of a Defaulter who is a Member of a Fund is the total of

(a) Marks owed by the Defaulter arising from its use of the Function for which the Fund is established (including Marks calculated in respect of its Central Counterparty Obligations after the Defaulter is suspended); and

(b) the net termination value of all of the Defaulter's Central Counterparty Obligations arising from its use of that Function.

The obligation of a Defaulter may be denominated in Canadian dollars or in US dollars or in both and the aggregate obligation in all currencies is the Debtor's obligation.

5.7.4 Calculation of Proportionate Share

Any request by CDS for payment pursuant to Rule 5.7.2 shall specify the effective time on the effective date to be used to calculate the Member's proportionate share of the obligation and shall provide details of that calculation. The effective date and time shall be the date and time of the suspension of the Defaulter or subsequent Defaulter, unless the Board of Directors determines that another date and time shall be used for such calculation. The Board of Directors, acting reasonably in the best interest of CDS and of Participants generally, may fix the effective time on the effective date for the calculation of proportionate shares. A Member's proportionate share of an obligation shall be in the same proportion to the obligations of all other Members that the Member's Fund Contribution to the Fund established for the Function in respect of which the obligation has arisen is of the total of all Fund Contributions required to be made to that Fund by all Members (other than the Defaulter). In calculating a Member's proportionate share of the obligation of a subsequent Defaulter, the Fund Contributions to the Fund of the Defaulter and of each subsequent Defaulter shall be excluded from the calculation. If a Member's Fund Contribution is denominated separately in Canadian dollars and in US dollars, then for the purposes of this Rule 5.7.4, the calculation of the proportionate share shall be made using the aggregate Contributions, converting the US dollar Contributions to a Canadian equivalent using an exchange rate determined by CDS.

5.7.5 Continuing Obligation

The obligation of a Member of a Fund Credit Ring pursuant to this Rule 5.7 is a continuing obligation and is not discharged in whole or in part by, and each Member shall make payment as required by Rule 5.7.2 without regard to:

(a) any payment made by the Defaulter or by another Member;

(b) the suspension, termination or withdrawal of any Member of the Fund Credit Ring as a Participant; or

(c) any defences, claims, counterclaims, statutory or contractual rights of set-off or rights of offset arising between the Defaulter and the Member or between CDS and the Defaulter or between CDS and the Member.

5.7.6 Actions by CDS

The liability of a Member of a Fund Credit Ring pursuant to this Rule 5.7 shall not be affected by any act or failure to act of CDS or of the Defaulter. Without limiting the generality of the foregoing:

(a) The details of Trades between Participants that are to be Settled through the Service are reported to CDS.

(b) If the Trade instructions specify a TPCS Mode of Settlement, the Trade is reported to the TPCS.

(c) If the Trade instructions pass the pre-entry system edits, the Trade is entered into the system to be considered for Settlement.

(d) A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using the CNS Function to process Central Counterparty Obligations.

(e) The Settlement of each pending Trade using the Trade-for-Trade method is effected by means of payment and delivery of Securities between Participants. The Settlement of each outstanding Central Counterparty Obligation is effected by means of payment and delivery of Securities between Participants and CDS. Payment is made through the Settlement Service by book entry on the records of CDS. Securities are delivered either by the book delivery on the records of CDS of Securities held in the Depository Service or by the physical delivery of Security Certificates (if the Trade is to be Settled using the Certificate Based Settlement method).

(f) If the Trade is reported with a TPCS Mode of Settlement, and the Third Party Clearing System has netted the Trade prior to the position's having been reported to CDS, the Trade representing the netted position will Settle on a Trade-for-Trade basis between the Participant and the Third Party Clearing System.

(g) There are three Settlement processes: the Real Time Continuous Net Settlement Process, the Real Time TFT Settlement Process the Combined Batch Net Settlement/Continuous Net Settlement Process.

7.1.2 Overview of Netting Prior to Settlement

A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using the CNS Function to create and revise Central Counterparty Obligations.

When a Trade is Settled without netting using the Trade-for-Trade method, the Participants who are parties to the Trade retain their identity as deliverer and receiver, and as payee and payor, with respect to that Trade until Settlement between those Participants is completed.

A Trade may be processed prior to Settlement through the CNS Function, if the CNS Function applies automatically to that class of Trades or if the following conditions are met: (i) both Participants to the Trade use the CNS Function; (ii) the Security with respect to which the Trade is made is eligible for the CNS Function; and (iii) both Participants specify the use of the CNS Function for the Settlement of that Trade.

When a Trade is processed in the CNS Function prior to Settlement, each of the obligations of the Participants who are the parties to the Trade is first novated to obligations between each Participant and CDS and the resulting novated obligation with CDS is then netted with each Participant's like obligations with CDS to calculate the Central Counterparty Obligation to be Settled between that Participant and CDS. Under a Central Counterparty Obligation, (i) either CDS or the Participant has an obligation to deliver Securities and a right to receive payment for such delivered Securities, and (ii) the other party has the corresponding right to receive Securities and the corresponding obligation to make payment.

7.1.3 Ledgers and Accounts

For each Participant, CDS maintains one or more Ledgers. CDS also maintains one or more Ledgers for itself. Within each Ledger, there are a number of Accounts for funds and Securities. The Ledgers and Accounts are more fully described in Rule 6.1 and Rule 8.1.

7.1.4 Delivery of Securities and Making of Payment

When a Trade is settled on a delivery versus payment basis, the delivery of the Securities and the payment occur simultaneously. The Settlement of each pending Trade using the Trade-for-Trade method is effected by means of payment and delivery of Securities between Participants. The Settlement of each outstanding Central Counterparty Obligation is effected by means of payment and delivery of Securities between the Participant and CDS. References in these Rules to entries made on the Ledgers of Participants for the Settlement of a Central Counterparty Obligation include, unless the context otherwise requires, entries made on the Ledgers maintained by CDS for itself. Delivery of Securities is made to or from CDS from or to a Participant. Payment is made through the Settlement Service by book entry on the records of CDS. Securities are delivered either by the book delivery on the records of CDS of Securities held in the Depository Service, or by the physical delivery of a Security Certificate (if the Trade is to be Settled using the Certificate Based Settlement method). CDS makes entries to the Ledgers maintained by it for the parties to the Trade or Central Counterparty Obligation, to debit and credit the appropriate Accounts so as to make payment and, if the Settlement uses book delivery, to deliver Securities. Upon Settlement of a Trade, the obligations arising from the underlying Trade between the Participants (or, if the Settlement relates to a Central Counterparty Obligation, the obligations between CDS and the Participant evidenced by that Central Counterparty

(c) Trade-for-Trade Settlement of Trades reported by Third Party Clearing System

Trades reported from a TPCS to CDS shall Settle on a Trade-for-Trade basis in accordance with Rule 7.4.2, with the TPCS as the counterparty to each Trade.

(d) Partial Delivery by Third Party Clearing System

When an outstanding TPCS Obligation is considered for TFT Settlement and the Settlement of the entire TPCS Obligation would not pass the pre-Settlement edit, but a partial Settlement of the TPCS Obligation would pass the pre-Settlement edits, then CDS may modify the original Trade in order to partially Settle that portion of the Trade which would otherwise be eligible for TFT Settlement but for the restriction of Rule 7.4.2(d). Partial Settlement of a TPCS obligation results in the deletion of the original Trade and the creation of two new Trades, one for the amount of the available Securities or Funds, and one for the outstanding remainder. The former Trade will Settle by the delivery of only some of the Securities required and the making of a corresponding partial payment; the latter Trade will remain outstanding, to be reconsidered for Settlement. A pending Trade that constitutes the remainder of a partial Settlement may itself be partially Settled by the same process as defined herein.

7.3. CONTINUOUS NET SETTLEMENT FUNCTION

7.3.1 Overview of CNS Function

The Continuous Net Settlement Function or CNS is a Function to net eligible Trades. CNS calculates CNS Obligations owing from time to time between a Participant and CDS by novating, on Value Date, the obligations between the Participants arising from an eligible Trade to obligations with CDS and by netting all of a Participant's like obligations with CDS. Each resulting CNS Obligation is a Central Counterparty Obligation that is Settled on its Value Date through the Settlement Service.

7.3.2 Eligibility

Pursuant to Rule 2.2.8, the Board may impose such additional qualifications and standards for Participants eligible to use CNS as the Board considers necessary or desirable for the protection of CDS and of other Participants using CNS. CDS shall determine the Trades that are eligible for processing in CNS, based on any characteristic that CDS determines is relevant, including the class of Securities to be delivered in such Trade and the Value Date of the Trade.

A Trade may be processed prior to Settlement through CNS, if CNS applies automatically to that class of Trades or if all of the following conditions are met: (i) both Participants who are parties to the Trade use CNS; (ii) the Security with respect to which the Trade is made is eligible for CNS; and (iii) the use of CNS for the Settlement of that Trade is specified (1) by both Participants who are parties to the Trade, (2) by the Exchange, trading system, service bureau or other third party service provider that reported the Trade on behalf of the Participants, or (3) in the case of Trades processed through the CDSX trade matching function, by either or both of the Participants who are parties to the Trade.

7.3.3 Novation of Trades Prior to Settlement

When a Trade is processed in CNS, the Settlement obligations and rights between the Participants arising from the Trade (to deliver Securities and to receive payment, or to receive Securities and to make payment) are extinguished and replaced by corresponding Settlement obligations and rights between each Participant and CDS, with the result that all such obligations of each Participant are owed to CDS and all such rights of each Participant are against CDS. The novated obligations and rights between CDS and each Participant shall be due as of the Value Date of the Trade. To the extent, if any, that the novation of the Settlement obligations and rights affects any of the terms and conditions of the underlying Trade between the Participants that was to be Settled by the Trade, such terms and conditions shall be deemed to be amended, required to be performed and to have effect in a manner consistent with Settlement by CNS processing (unless the Participants expressly agree otherwise).

7.3.4 Netting of Novated Trades

Each time a Trade between Participants is processed in CNS, the novated obligations and rights between each Participant and CDS are netted with their like novated obligations and rights in order to calculate the single CNS Obligation with that Value Date, for that issue of Securities and in that currency then-outstanding between that Participant and CDS. One CNS Obligation is a like obligation to another CNS Obligation if each is a CNS Obligation of that Participant to CDS, and of CDS to that Participant, with the same Value Date, denominated in the same currency, for the same issue of Securities, and resulting from other Trades of that Participant previously processed through CNS. A Participant's CNS Obligations are like obligations and may be netted even if under one CNS Obligation, CDS has the obligation to deliver Securities to the Participant and the right to receive payment from the Participant, while under the other

CNS Obligation, CDS has the right to receive Securities from the Participant and the obligation to make payment to the Participant, and *vice versa*. CDS maintains a record of the CNS Obligations of each Participant outstanding from time to time, to record by Value Date for each issue of Securities (i) the obligation of the Participant to deliver Securities to CDS and the right of the Participant to receive payment from CDS, or (ii) the obligation of the Participant to receive Securities from CDS and the right of the Participant to make payment to CDS.

7.3.5 CNS Process

The netting of the obligations and rights arising from a novated Trade occurs simultaneously with the novation of that Trade, to calculate a single CNS Obligation due on each Value Date for each issue of Securities and denominated in the same currency. Such novation and netting occur when entries are made in the records maintained by CDS, deleting the Trade between the Participants and recording new or recalculated CNS Obligations between each of the Participants and CDS. The entries for each Trade are processed concurrently on a committed basis, with the result that (i) either all of the entries are made to delete the Trade and record CNS Obligations or none of the entries is made, and (ii) the deletion and the recording occur simultaneously. CDS shall provide Participants with information showing each of the Trades that has been deleted upon being processed in CNS, to assist Participants in reconciling their records. For greater certainty, the fact that CDS provides archival records of the deleted Trades shall not detract from the finality of the novation of any Trade once processed in CNS, and such records shall not constitute evidence of any obligation owing between the Participants to a deleted Trade.

7.3.6 Marks

(a) Daily Mark

For each Business Day that a CNS Obligation is outstanding, CDS shall calculate in accordance with the Procedures the daily Mark in respect of that CNS Obligation. The daily Mark reflects the then-current market price of the Securities that are to be delivered or received on Value Date by the Participant in respect of that CNS Obligation. The daily Mark is an amount that shall be paid on that Business Day either to CDS by the Participant owing the CNS Obligation, or by CDS to that Participant. In addition, on that Business Day the payment component of the CNS Obligation is adjusted by the amount of the daily Mark.

(b) Fail Mark

In addition, to encourage the timely Settlement of CNS Obligations, CDS may impose a fail Mark in respect of any delayed or partial delivery of the Securities to be delivered pursuant to a CNS Obligation or in respect of any delayed or partial payment to be made pursuant to a CNS Obligation. CDS shall calculate in accordance with the Procedures the fail Mark, which will reflect the financing cost of the delayed or partial Settlement. If imposed, the fail Mark shall be paid to

CDS by participants who failed to deliver Securities to CDS or to make payment to CDS, and shall be paid by CDS to participants to whom CDS failed to deliver Securities or to make payment. The payment component of the CNS Obligation is not adjusted by the amount of the fail Mark.

(c) Payment of Net Mark

CDS calculates a net amount owing to or by each Participant in respect of Marks for CNS by netting all CNS Marks to be paid or received by that Participant and the net CNS Mark is credited to or debited from the Funds Account of the Participant. No amount shall be drawn under a Line of Credit or a System-Operating Cap in respect of a CNS Mark.

7.3.7 Settlement of CNS Obligations

Each CNS Obligation shall be Settled on its Value Date by a Trade between the Participant and CDS, effected by appropriate debits and credits to the Securities Account and Funds Account of CDS and of the Participant, subject to the same edits and restrictions as any other Trade of that Participant.

7.3.8 Partial Settlement and Delayed Settlement

(a) Effect of Partial or Delayed Settlement

CDS may delay the receipt of, or take partial receipt of, Securities that it is due to receive under the securities component of a CNS Obligation if it is unable to re-deliver all such Securities under the securities component of another of its CNS Obligations with another participant, and may delay the delivery of, or make partial delivery of, Securities that is due to deliver under the securities component of a CNS Obligation if it has not received the delivery of all such Securities under the securities component of another of its CNS Obligations with another participant. When a partial delivery of Securities is made by a participant or by CDS in Settlement of the securities component of its CNS Obligation, the payment component of that CNS Obligation shall be adjusted accordingly; when a partial payment is made by a participant or by CDS in Settlement of the payment component of its CNS Obligation, the securities component of that CNS Obligation shall be adjusted accordingly. If a CNS Obligation of a participant or of CDS is not Settled in full on its Value Date because any or all of the Securities due to be delivered in respect of the CNS Obligation are not delivered or because any or all of the payments due to be made in respect of the CNS Obligation are not made, then the Value Date of the outstanding CNS Obligation will be changed to the next Business Day, and will be netted with the like CNS Obligations of CDS and of that participant for the new Value Date. The revision and recalculation of the CNS Obligation will continue until it is Settled in full. To encourage the timely Settlement of CNS Obligations, CDS may impose a fee in respect of any delayed or partial delivery of the Securities to be delivered

pursuant to a CNS Obligation or in respect of any delayed or partial payment to be made pursuant to a CNS Obligation.

(b) Buy-In Procedure

If CDS has not delivered all of the Securities owing to a Participant under a CNS Obligation, then that Participant may request CDS to Settle the then-outstanding CNS Obligation on its then-current Value Date. If CDS receives such a request to Settle a partial or delayed delivery, CDS may require any Participant who has a CNS Obligation to deliver Securities of that issue to CDS on that Value Date to make such delivery. Upon such request by CDS, that Participant shall be required to Settle in full the forced-on CNS Obligation by the time prescribed and shall not be permitted to make a partial delivery or to delay delivery. If the Participant fails to Settle a forced-on CNS Obligation in full, then CDS may at any time execute a buy-in of the Participant's delayed or partial delivery. When CDS executes a buy-in, the forced-on CNS Obligation shall be terminated. CDS may appoint an agent to purchase the Securities required for the buy-in, and the purchase shall be made on such terms as CDS deems commercially reasonable taking into consideration the need of CDS to receive prompt delivery of such Securities. If CDS makes such a purchase, the purchase price of such Securities, and all costs and expenses incurred by CDS in connection with the purchase, shall be an amount immediately due and owing to CDS by the Participant who failed to Settle the forced-on CNS Obligation.

7.3.9 Re-Novation of CNS Obligation before Settlement

CDS may take the steps set out in this Rule 7.3.9 with respect to an outstanding CNS Obligation that has not yet been Settled (i) if the Security to be delivered becomes permanently ineligible for CNS, or (ii) if the Security to be delivered becomes temporarily ineligible for CNS in order to facilitate the processing of a re-organization in respect of that Security or in order to facilitate the processing of an entitlement by DTC or NSCC in respect of that Security. In such event, CDS may novate the outstanding CNS Obligation to a Trade between Participants. As a result, the outstanding CNS Obligation shall be deleted from CNS and the rights and obligations between CDS and the Participant under the deleted CNS Obligation shall be extinguished. To replace the deleted CNS Obligation, CDS shall create one or more Trades with a Trade-for-Trade mode of settlement indicator between CNS Participants who had, before the deletion, corresponding CNS Obligations. The Participants who are parties to the newly created Trade that replaces the deleted CNS Obligation may not have previously been parties to any Trade in the affected Security with one another. Upon the deletion of an outstanding CNS Obligation, any obligation to deliver Securities and any right to receive Securities, and any obligation to make payment and any right to receive payment, between CDS and the Participant arising from the deleted CNS Obligation, are extinguished and replaced by the rights and obligations of the Participants to deliver Securities and make payment arising from the newly created Trade, and CDS shall have no further obligation or right with respect to the deleted CNS Obligation.

7.3.10 Conversion of CNS Trade Before Processing

CDS may take the steps set out in this Rule 7.3.10 with respect to a Trade with a CNS mode of settlement indicator that has not yet been processed through CNS Function if the Security to be delivered becomes ineligible for CNS either permanently, or temporarily to facilitate the processing of an entitlement or re-organization in respect of that Security. In such event, CDS may change the mode of settlement indicator on the Trade to a Trade-for-Trade mode of settlement. As a result, the outstanding Trade shall be converted into a Trade with a Trade-for-Trade mode of settlement indicator to be Settled between the Participants who were the parties to the original Trade. When the Security later becomes eligible for CNS, a Trade-for-Trade mode of settlement indicator on any outstanding Trade in that Security (including a newly created Trade under Rule 7.3.9) may be changed to a CNS mode of settlement indicator, if the Trade is eligible for processing through the CNS Function.

7.3.11 Default after Settlement

Once a CNS Obligation has been Settled, the CNS Obligation shall no longer be distinguished from any other Trades Settled for the Participant. If the Participant is suspended after Settlement of CNS Obligation, CDS shall take steps with respect to that suspension without regard for the fact that the obligation in respect of which the Participant has defaulted included debits or credits arising from the Settlement of the CNS Obligation. Without limiting the generality of the foregoing, CDS may take the steps set out in Rule 9.2 to collect payment from any Surety and from the other Members of any Credit Ring of which the Defaulter is a Member, and the steps set out in Rule 9 generally.

7.3.12 Close-Out Process

(a) Actions by CDS

Upon the termination or suspension of a CNS Participant, CDS shall:

(i) Settle CNS Obligations due on that Value Date with each Participant other than the Defaulter, but such Settlement may be delayed until after completion of the close-out process for the Defaulter in accordance with this Rule;

(ii) terminate all outstanding CNS Obligations of that Defaulter;

(iii) determine the close-out amount for each terminated CNS Obligation;

(iv) determine the net termination value for all of CNS Obligations of that Defaulter, by netting or setting off all close-out amounts that are losses to CDS against all close-out amounts that are gains to CDS; and

(v) take any steps under Rule 9.

CDS may decide not to take all or any such steps in respect of a suspended Participant, in which event the notice of suspension will indicate which steps are to be taken.

(b) Calculation of Close-Out Amounts

The close-out amount for each CNS Obligation shall be the amount determined by CDS in good faith to be its total loss or gain arising from the failure of that CNS Obligation, including any cost of funding. CDS may enter into a Trade that has the effect of replacing for CDS (to the extent feasible) the economic equivalent of the Defaulter's obligation pursuant to that CNS Obligation to deliver Securities for the corresponding payment or to receive Securities on making the corresponding payment. CDS may in its discretion determine that the replacement Trade shall be a buy/sell, a purchase/repurchase, a repo, a securities loan, or a Trade otherwise structured. If the replacement Trade is to be Settled by a Trade, that Trade may itself be processed in CNS. The cost or gain to CDS of such replacement Trade, including the Marks paid or received on the CNS Obligation resulting from the processing of the replacement Trade through CNS, shall be used to calculate the close-out amount of that replaced CNS Obligation. If CDS determines that it is not feasible to enter into a replacement trade, the loss or gain constituting the close-out amount may be determined by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant market.

(c) Calculation of the Net Termination Value

CDS shall calculate the net termination value for all of the Defaulter's CNS Obligations terminated upon the suspension of the Participant, which shall be the net of all losses or gains arising from the close-out amount of all CNS Obligations. The net termination value shall be an amount that is immediately due and payable by the Defaulter to CDS.

(d) Release of Liability

Each CNS Participant releases and discharges CDS from any liability or claim arising from the exercise of the powers granted pursuant to this Rule 7.3, other than liabilities or claims arising from gross negligence or wilful default.

7.3.13 Withdrawal from CNS

A Participant may withdraw from CNS by giving notice to CDS of its intention to withdraw. CDS shall inform all of the other Participants making use of CNS that it has received a notice of intention to withdraw from that Participant, and shall give particulars of the withdrawal. The notice shall be effective as of the end of the tenth Business Day following the later of (i) the Business Day on which the Participant gives such notice or (ii) the Business Day on which the Participant, having given such notice, has no outstanding CNS Obligations and has paid the net amount owing by it in respect of CNS

7.4. PROCESSING OF SETTLEMENTS

7.4.1 Settlement Processes

A pending Trade or outstanding Central Counterparty Obligation is considered for Settlement on its Value Date. There are three Settlement processes: the Real Time TFT Settlement Process (the Real Time TFT Process), the Real Time Continuous Net Settlement Process, and the Combined Batch Net Settlement/Continuous Net Settlement Process (the Combined Batch/CNS Process).

7.4.2 Real Time TFT Process

The Real Time TFT Settlement Process:

(a) is run throughout the time the system is operating;

(b) processes Settlement of pending Trades that have a Trade-for-Trade mode of settlement indicator (including Pledges.);

(c) does not novate or net newly reported Trades to create new Central Counterparty Obligations; and

(d) Settles a Trade only if the entire Trade can be Settled except when such Trade is reported by a Third Party Clearing System as described in Rule 7.2.7

If a Trade does not pass the pre-settlement edits in its entirety, it is not partially Settled and remains a pending Trade that will be reconsidered for Settlement.

When the Real Time TFT Process effects the Settlement of a Trade, amounts are used under the System-Operating Cap and Lines of Credit (if required) at the same time that Securities are delivered pursuant to Rule 7.5.2 or Rule 7.5.4 and payment is made pursuant to Rule 7.5.5. All of the entries required for each Settlement are processed on a committed basis, with the result that either all of the entries (including all entries to Funds Accounts and Securities Accounts and all entries using amounts under System-Operating Caps and Lines of Credit in respect of negative Funds Account balances) required to complete that Settlement are made, or, if for any reason any of the entries cannot be made, then none of the entries are made and the Trade is not Settled.

7.4.3 Real Time Continuous Net Settlement Process

The Real Time Continuous Net Settlement Process:

(a) is run continuously each day as a discrete process in accordance with the Procedures;

(b) processes Settlement of outstanding Central Counterparty Obligations for CNS .;

(c) does not usually novate or net newly reported Trades to create new Central Counterparty Obligations, but may be used by CDS in its discretion to novate and net newly reported Trades that have a CNS mode of settlement indicator in order to calculate new Central Counterparty Obligations, in which event it will also calculate and process the related Marks;

(d) Settles an outstanding Central Counterparty Obligation either in its entirety or partially;

(e) applies the pre-settlement system edits described in Rule 5.13 to the Securities and Funds Account balances resulting from the Settlement of each individual outstanding Central Counterparty Obligation.

When the Settlement of a Central Counterparty Obligation is effected by the Real Time Continuous Net Settlement Process, amounts are used under the System-Operating Cap and Lines of Credit at the same time that Securities are delivered pursuant to Rule 7.5.2 or Rule 7.5.4 and payment is made pursuant to Rule 7.5.5. All of the entries required for each Settlement processed are processed on a committed basis, with the result that either all of the entries (including all entries to Funds Accounts and Securities Accounts and all entries using amounts under System-Operating Caps and Lines of Credit in respect of negative Funds Account balances) required to complete that Settlement are made, or, if for any reason any of the entries cannot be made, then none of the entries are made and the Central Counterparty Obligation is not Settled.

7.4.4 Combined Batch/CNS Process

The Combined Batch Net Settlement/Continuous Net Settlement Process:

(a) is run once each day as a discrete process before the Real Time TFT Process or the Real Time Continuous Net Settlement Process is run, and may be run at additional times if CDS considers such action desirable to optimize Service functionality;

(b) processes Settlement of any pending Trade (other than a Pledge) or outstanding Central Counterparty Obligation;

(c) novates and nets newly reported Trades that have a CNS mode of settlement indicator, to calculate new Central Counterparty Obligations;

(d) calculates and processes Marks for Central Counterparty Obligations;

(e) Settles an outstanding Central Counterparty Obligation either in its entirety or partially;

(f) Settles a Trade only if the entire Trade can be Settled;

(g) applies the pre-settlement system edits described in Rule 5.13 to the projected final net Securities and Funds Account balances resulting from the Settlement of all Trades and Central Counterparty Obligation in the batch, and not to the balances resulting from the Settlement of each individual Trade or Central Counterparty Obligation.

The Combined Batch/CNS Process Settles a pending Trade or outstanding Central Counterparty Obligations only if all of the resulting Account balances pass the pre-settlement edits. If not, the pending Trade is removed from the batch (and not considered for partial Settlement), and the outstanding Central Counterparty Obligation is considered for partial Settlement in accordance with Rule 7.4.6, until those remaining can be Settled within the limitations set by the pre-settlement edits. Trades removed from the batch remain pending Trades to be reconsidered for Settlement. After such removals, the Trades and Central Counterparty Obligations then remaining are Settled in a batch.

The entries for each batch are processed on a committed basis, with the result that either all of the entries (including all entries to Funds Accounts and Securities Accounts and all entries using amounts under System-Operating Caps and Lines of Credit in respect of negative Funds Account balances) required to complete those Settlements are made, so that all the Trades and Central Counterparty Obligations remaining in the batch are Settled, or, if for any reason the batch cannot be completed, none of the entries are made and no Trade or Central Counterparty Obligation is Settled by that batch. All entries required to effect all of the Settlements in a particular batch are made concurrently, with the result that all the Trades and Central Counterparty Obligations remaining in the batch are Settled simultaneously.

7.4.5 Account Entries Resulting from Batch Process

(a) Funds Account Entries

For each Trade Settled by the Combined Batch/CNS Process that includes payment, an entry is made debiting the Funds Accounts maintained for the payor Participant and an entry is made crediting the Funds Accounts maintained for the payee Participant. For each Central Counterparty Obligation Settled by the Combined Batch/CNS Process that includes payment, an entry is made debiting the Funds Accounts maintained for the payor Participant (or CDS) and an entry is made crediting the Funds Accounts maintained for the payee Participant (or CDS). Since all of the debit and credit entries required to effect all of the Settlements in a particular batch are made simultaneously, no interim Funds Account balance can be calculated for each entry and only the Funds Account balance resulting from the Settlement of all such Trades and Central

Counterparty Obligations records funds owing between CDS and the Participant in accordance with Rule 8.1.1. Accordingly, only the resulting Funds Account balance (if negative) is used under the System-Operating Cap allocated to that Funds Account and the Lines of Credit established for that Ledger. Therefore, no individual entry debiting a Funds Account made in the batch is a forced entry as described in Rule 8.1.3, and the Settlements effected in the batch are made in compliance with Rule 2.4 and Rule 5.10.1.

(b) Securities Entries in Accounts

For each Trade Settled by the Combined Batch/CNS Process that includes the delivery of Securities, an entry is made debiting the Securities balance in an Account maintained for the delivering Participant and an entry is made crediting the Securities balance in an Account maintained for the receiving Participant. For each Central Counterparty Obligation Settled by the Combined Batch/CNS Process that includes the delivery of Securities, an entry is made debiting the Securities balance in an Account maintained for the delivering Participant (or CDS) and an entry is made crediting the Securities balance in an Account maintained for the receiving Participant (or CDS). For each class of Security in which Trade or Central Counterparty Obligations are Settled by batch processing, a single net Securities balance is calculated for each Account affected by the processing. Since all of the debt and credit entries required to effect all of the Settlements in a particular batch are made simultaneously, no interim Account balance is calculated for each entry and only the Account balances resulting from the Settlement of all such Trades and Central Counterparty Obligations record Securities held by CDS for the Participant in accordance with Rule 4.2.4.

(c) Completion of Trades

The debit and credit entries made in the batch to each Account to complete a Trade constitute the Settlement of that Trade by the delivery of Securities between the delivering Participant and the receiving Participant pursuant to Rule 7.5.2 or Rule 7.5.4 and the making of payment between the payee Participant and the payor Participant pursuant to Rule 7.5.5. The debit and credit entries made in the batch to each Account to complete a Central Counterparty Obligation constitute the Settlement of that Central Counterparty Obligation by the delivery of Securities between CDS and the delivering or receiving Participant (as the case may be) pursuant to Rule 7.5.2 and the making of payment between CDS and the payee or payor Participant (as the case may be) pursuant to Rule 7.5.5.

7.4.6 Processing of Settlement of Central Counterparty Obligations

When (i) an outstanding Central Counterparty Obligation is considered for Settlement in any Settlement process, (ii) the Settlement of the entire Central Counterparty Obligation would not pass the pre-settlement edit, but (iii) a partial Settlement of the Central Counterparty Obligation would pass the pre-settlement edits, then the Central Counterparty Obligation may be partially Settled, by the delivery of only some of the Securities required and the making of a corresponding partial payment. As a result of such a partial Settlement of the Central Counterparty Obligation, a revised Central Counterparty Obligation will remain outstanding, to be reconsidered for Settlement.

7.5. SETTLEMENT

7.5.1 Settlement Process

As a result of the processing described in Rule 7.4, any or all of the following may occur:

(a) pending Trades are Settled by the delivery of Securities and payment between Participants as described in this Rule 7.5;

(b) outstanding Central Counterparty Obligations are Settled by the delivery of securities and payment between CDS and a Participant as described in this Rule 7.5;

(c) Securities Account balances and Funds Account balances are revised by the debits and credits made in respect of such Settlements;

(d) amounts are used under Lines of Credit and System-Operating Caps;

(e) amounts used under Lines of Credit and System-Operating Caps are repaid;

(f) Trades that are not Settled remain pending to be reconsidered for Settlement; and

(g) Central Counterparty Obligations that are not Settled, or are partially Settled, remain outstanding to be reconsidered for Settlement.

All such entries are made simultaneously.

7.5.2 Book Delivery of Securities

A transfer of a Security by book delivery is effected by the making of appropriate entries in the Ledgers maintained by CDS debiting and crediting the Accounts of the delivering Participant and the receiving Participant respectively in the quantity of the Security relating to that Trade (or debiting and crediting the Accounts of CDS and the Participant, relating to that Central Counterparty Obligation). The making of such entries effects final and irrevocable delivery of the Security between the Participants with respect to that Trade (or between CDS and the Participant, with respect to that Central Counterparty Obligation).

7.5.3 Attornment

The making of an entry by CDS in the Ledgers maintained by CDS to effect the delivery of a Security constitutes the attornment of CDS that the Security so delivered is held for the receiving Participant, and such Security is thereby constructively delivered to the receiving Participant. The making of an entry by CDS in a Securities Account maintained by CDS for a Participant to record a quantity of a Security constitutes the

attornment of CDS that the quantity of that Security so recorded is held for the Participant.

7.5.4 Pledge

A Pledge of a Security is effected by the making of appropriate entries in the Ledgers maintained by CDS debiting the Securities Account of the pledgor Participant and crediting the Collateral Account of the pledgee Participant in the quantity of the Securities relating to that Pledge. The Securities credit balance in the Collateral Account of a Participant records the quantity of each Security held by CDS for that Participant. A Pledge of funds is effected by the making of appropriate entries in the Ledgers maintained by CDS debiting the Funds Account of the pledgor Participant and crediting the Collateral Account of the pledgee Participant in the amount of funds relating to that Trade. The funds credit balance in the Collateral Account of a Participant, which records an amount owing by CDS to that Participant, is a financial asset held by CDS for that Participant and subject to its control. The Participant has control and possession of the Securities and financial assets credited to that Participant's Collateral Accounts for all purposes, including the perfection of a security interest. As between the pledgee Participant and the pledgor Participant, and without derogating from the grant of the Surety Security Interest and the Category Credit Ring Security Interests, Pledged Securities and Pledged funds credited to the pledgee Participant's Collateral Account can be dealt with solely in accordance with the instructions of the pledgee Participant, without reference to or consent by the pledgor Participant or to any person claiming through it or as its successor or representative. A Pledge of funds is subject to any repayment terms of any agreement between the Participants, and unless otherwise agreed the pledgor Participant has no right to the repayment of the Pledged funds except upon discharge of the debt or other obligation for which the funds were Pledged. CDS is under no obligation to verify the terms of any Pledge or compliance with the terms thereof by any Participant. So long as the Pledged Securities or funds remain in the Collateral Account of the pledgee Participant to whom they are Pledged, CDS also reflects the delivery of such Securities or funds in the Pledge Account for the pledgor Participant who made the Pledge. The record of the Pledged Securities or Pledged funds shall be deleted from the Pledge Account of the pledgor Participant when the pledgee Participant to whom the Securities or funds were Pledged directs that the Pledged Securities or funds be transferred from its Collateral Account. On Payment Exchange, Pledged funds are transferred from the pledgee's Collateral Account to its Funds Account. When Pledged funds are transferred from the pledgee's Collateral Account to its Funds Account or are transferred at its instructions to the Funds Account of the pledgor Participant, the Pledged funds cease to be a financial asset.

7.5.5 Payment

Payment between Participants, or for a Central Counterparty Obligation between CDS and the Participant, is effected by the making of entries debiting the Funds Account or Collateral Account maintained for the payor Participant or CDS and crediting the Funds Account or Collateral Account maintained for the payee Participant or CDS. The making of such entries effects final and irrevocable payment between the Participants, or final

and irrevocable Settlement of the Central Counterparty Obligation between the Participant and CDS. Such entries shall be made by CDS to effect a Funds Transfer, to effect a Pledge, or to Settle a Trade or Central Counterparty Obligation (and if a delivery of Securities is also involved in that Settlement, the payment entries shall be made simultaneously with the making of the entries in the Ledgers maintained by CDS to effect the delivery).

7.5.6 Novation Upon Settlement

Upon the making of the entries by CDS to effect delivery of the Securities, any obligation between the Participants arising from the Trade, or between CDS and the Participant arising from the Central Counterparty Obligation, to deliver Securities is extinguished and replaced by the obligation of CDS pursuant to Rule 4.2.4 to deliver to the Participant the Securities shown in the Participant's Securities Account. Upon the making of the entries by CDS to effect payment, any obligation between the Participants arising from the Trade, or between CDS and the Participant arising from the Central Counterparty Obligation, to make such payment is extinguished and replaced by the obligation to make and the right to receive payment on Payment Exchange between the Participants and CDS as recorded in the Participants' Funds Accounts.

7.5.7 Finality of Settlement

The making of entries in the Ledgers maintained by CDS to effect a delivery of Securities or a payment effects final and irrevocable delivery or payment to and from the Participants in whose Ledgers such entries are made. If the entries are made to Settle a Central Counterparty Obligation, such entries effect final and irrevocable delivery or payment between CDS and the Participant. The finality of the Settlement of a Central Counterparty Obligation does not affect the separate obligation to make payment on Payment Exchange between CDS and the Participant that is evidenced by any Funds Account balance in a Ledger of a Participant.

9.2. GENERAL DESCRIPTION OF PROCESS ON SUSPENSION

9.2.1 Restriction of System Functionality

Immediately upon the suspension of a Participant, CDS shall restrict the right of the Participant to use all system functionality for all Services. Such restriction may be lifted in whole or in part by CDS in its discretion as may be required to complete an orderly discharge of the Participant's obligations in accordance with this Rule 9.

9.2.2 Central Counterparty Functions

If a Participant using any Central Counterparty Function is suspended, then the following steps shall be taken in addition to the other steps described in this Rule 9.

(a) Marks

Notwithstanding the suspension of the Participant, Marks shall continue to be calculated and owed in respect of each of its outstanding Central Counterparty Obligations.

(b) Unprocessed Trades

Any of its Trades that have not yet been processed through CNS shall be ineligible for the CNS Function.

9.2.3 Retention of Positive Balances upon Suspension

If a suspended Participant has a positive balance denominated in any currency credited to any Funds Account or Restricted Collateral Account in any Ledger, then CDS shall not pay such positive balance to the suspended Participant. CDS shall exercise its right of retention in respect of any such positive balance. CDS may debit the positive balance from the suspended Participant's Ledger and credit it to a Collateral Administration Ledger of CDS.

9.2.4 Effect of Suspension on Book Entry Payment Method

When a Participant is suspended, the attribution of amounts pursuant to the Book Entry Payment Method shall be reversed in accordance with Rule 8.4 and any payment made by a Qualified Banker on behalf of a suspended Customer shall be treated as set out in Rule 8.4.14.

9.2.5 Payment Exchange

Immediately upon the suspension of a Participant, CDS shall take the steps in accordance with Rule 5 necessary to ensure that Payment Exchange is completed for that day, including:

9.4.12 Credit Ring Obligation for Other Defaulters

A Withdrawing CCP Participant continues to be subject to its Fund Credit Ring obligations pursuant to Rule 5.7, as modified by this Rule 9.4, with respect to the obligation of any Defaulter who uses the CCP Function from which it is withdrawing and who is suspended on or before the day that is fifteen Business Days after the day on which the Withdrawing Participant exercised the CCP Withdrawal Option. The total amount paid by the Withdrawing CCP Participant with respect to the obligation of all Defaulters who are suspended after the suspension of the Suspended CCP Participant shall not exceed the amount of its Final Contribution less any amount paid by the Withdrawing CCP Participant in respect of its Fund Credit Ring obligations for the Suspended CCP Participant. In respect of such Defaulters who use the CNS Function.:

(a) the proportionate share of the Withdrawing CCP Participant and of each other Fund Member shall be based on their respective Contributions to the Fund at the time of the suspension (which for the Withdrawing CCP Participant shall be considered to be its Post-Withdrawal Contribution), provided that if the then unapplied amount of the Withdrawing CCP Participant's Final Contribution is insufficient to pay its proportionate share in full, the proportionate shares of each other Fund Member shall be increased accordingly; and

(b) the Final Contribution of the Withdrawing CCP Participant shall be applied first in respect of the Suspended CCP Participant and then any excess shall be applied in respect of the first successive Defaulter and any excess remaining thereafter shall be applied in respect of any other Defaulter in the order in which such Defaulters are suspended.

9.4.13 Refund of Final Contribution

A Withdrawing CCP Participant shall not be entitled to any refund of its Final Contribution until the later of (i) the date on which it has Settled all of its Central Counterparty Obligations arising from the CCP Function from which it is withdrawing

and (ii) the date on which CDS has determined its Fund Credit Ring obligations with respect to the Suspended CCP Participant and all Defaulters who used that CCP Function and the Withdrawing CCP Participant has paid such obligations.

9.4.14 Discretion re Selective Processing in CNS

(a) Discretion re Selective Processing in CNS

A Withdrawing CCP Participant shall Settle all of its outstanding Central Counterparty Obligations for the CCP Function from which it is withdrawing as soon as possible after it has exercised the CCP Withdrawal Option. Notwithstanding the restriction of the Withdrawing CCP Participant's right to use the CCP Function, CDS may at the request of the Withdrawing Participant permit particular eligible Transactions of that Withdrawing CCP Participant to be processed through CNS, provided that CDS determines such processing is likely to reduce the Withdrawing CCP Participant's outstanding Central Counterparty Obligations for that CCP Function. The selection of Transactions to be so processed shall be made on the basis of criteria set out in the Procedures.

(b) Exercise of Discretion

In exercising its discretion under this Rule 9.4.14, CDS shall take reasonable care in what it, in good faith, considers to be in the best interests of CDS and of all Participants. CDS shall not be liable to any Participant including the Withdrawing CCP Participant for any loss, damage, cost, expense, liability or claim arising from the exercise of its discretion to select particular eligible Transactions of a Withdrawing CCP Participant for processing through CNS.

9.4.15 Reinstatement

A Participant who has exercised the CCP Withdrawal Option may at any time be reinstated by the Board of Directors upon notice to CDS of the Participant's request for reinstatement and on conditions determined by the Board, provided the Participant is then eligible to use the CCP Function, pays any reinstatement fee determined by the Board and meets any other conditions set by the Board. The Board of Directors may approve or reject a request for reinstatement in its discretion. CDS may require that a Participant's application for reinstatement be deferred for a minimum period of time following its withdrawal from a CCP Function.

(a) shall confirm or reject the Deposit and Withdrawal of Securities and shall provide a Closing Balance Report to CDS, with respect to all CDSX eligible Securities for which it is the Transfer Agent;

(b) may act as a Depositary Agent (including a CDSX Depositary Agent) or Entitlements Processor;

(c) may not effect Settlements (including a transfer or Pledge of Securities) or hold Securities credited to its Ledger except in its capacity as a CDSX Depositary Agent or Entitlements Processor or as permitted when classified under another limited purpose Participant category;

(d) may not make Lines of Credit available to other Participants;

(e) may not use Lines of Credit made available by an Extender of Credit or by the Active Federated Participant;

(f) may not use the CNS Function;

(g) may not act as the ISIN Activator or Securities Validator for a Security; and

(h) may not act as a Custodian.

11.2.5 Exclusion from Credit Ring and Debit Ring

A TA Participant is not a member of a Credit Ring or of a Debit Ring.

11.2.6 Representation of TA Participant

A TA Participant represents and warrants to CDS and to all other Participants that its actions with respect to each eligible Security pursuant to this Rule are within its capacity and within the scope of the authorization received by it from the Issuer of the eligible Security. Each TA Participant shall be liable as principal for all of its obligations pursuant to this Rule, including obligations arising from representations and warranties made by it, whether it is acting on its own behalf or on behalf of an Issuer. The foregoing representation and warranty by each TA Participant, and its assumption of obligations under this Rule 11 shall not limit any liability that may attach to the Issuer of any eligible Security or to the TA Participant as the Transfer Agent of the Issuer under general principles of law or by operation of any applicable statute or regulation. A TA Participant is not required to perform any obligation to CDS if such performance would conflict with an order of a court or Regulatory Body having jurisdiction over the TA Participant.

11.2.7 Limitation of Responsibility of TA Participant

A TA Participant shall have no discretion with respect to the registration, holding or transfer of Securities Deposited into the Depository Service and shall act only in accordance with the directions of CDS. In accordance with the directions of CDS, such

13.3.2 OSC Notice and Request for Comment – Chicago Mercantile Exchange Inc. – Application for Exemption from Recognition as a Clearing Agency

OSC NOTICE AND REQUEST FOR COMMENT

CHICAGO MERCANTILE EXCHANGE INC.

APPLICATION FOR EXEMPTION FROM RECOGNITION AS A CLEARING AGENCY

A. Background

Chicago Mercantile Exchange Inc. (CME) has applied (the Application) to the Commission for an order pursuant to section 147 of the *Securities Act* (Ontario) (OSA) to exempt CME from the requirement to be recognized as a clearing agency in subsection 21.2(0.1) of the OSA. Among other factors set out in the Application, the exemption is being sought on the basis that CME is subject to an appropriate regulatory and oversight regime in its home jurisdiction in the United States by its primary regulator, the Commodity Futures Trading Commission (CFTC).

CME's Clearing Division clears and settles exchange-traded futures and options on futures, as well as over-the-counter (OTC) derivatives trades.

In reviewing the Application, staff followed the process and assessed the Application against the criteria set out in OSC Staff Notice 24-702 *Regulatory Approach to Recognition and Exemption from Recognition of Clearing Agencies* (Staff Notice).

B. Draft Order

In the Application, CME describes how it addresses each of the criteria set forth in the Staff Notice. Subject to comments received, staff propose to recommend to the Commission that it grant CME an exemption order with terms and conditions in the form of the proposed draft order attached as Appendix A to the Application (Draft Order).

The Draft Order requires CME to comply with various terms and conditions, including relating to:

1. Regulation of CME
2. Governance
3. Filing requirements
4. Information sharing
5. Submission to jurisdiction and agent for service

C. Comment Process

The Commission is publishing for public comment the Application and Draft Order. We are seeking comment on all aspects of the Application and Draft Order.

You are asked to provide your comments in writing, via e-mail and delivered on or before **June 16, 2012** addressed to the attention of the Secretary of the Commission, Ontario Securities Commission, 20 Queen Street West, Toronto, Ontario, M5H 3S8, e-mail: comments@osc.gov.on.ca.

The confidentiality of submissions cannot be maintained as comments received during the comment period will be published.

Questions may be referred to:

Maxime Paré
Senior Legal Counsel, Market Regulation
Tel.: 416-593-3650
mpare@osc.gov.on.ca

Cosmin Cazan
Accountant, Market Regulation
Tel: 416-593-8211
ccazan@osc.gov.on.ca

May 6, 2013

Ontario Securities Commission
20 Queen Street West, Suite 1903
Toronto, ON
Canada M5H 3S8
Attention: Antoinette Leung, Manager, Market Regulation Branch
Maxime Paré, Senior Legal Counsel, Market Regulation Branch

Re: Chicago Mercantile Exchange Inc. – Application for Relief pursuant to section 147 of the *Securities Act* (Ontario)

Dear Sir or Madam,

We are Canadian counsel to Chicago Mercantile Exchange Inc. ("**CME**") in connection with this application to the Ontario Securities Commission ("**OSC**") for an exemption from subsection 21.2(0.1) of the *Securities Act* (Ontario) ("**OSA**") pursuant to section 147 of the OSA relating to CME's business as a clearing agency with respect to certain over-the-counter ("**OTC**") derivative products and related exchange-traded futures and options on futures products, as more fully described herein.

This application is divided into the following Parts I to V, Part III of which describes how CME satisfies OSC Staff's criteria for recognition (or exemption from recognition) of clearing agencies:

Part I Introduction
1. CME Services to Ontario Residents
2. Background to the Application

Part II Background to CME
1. Regulatory Oversight of CME
2. Ownership of CME
3. Products Cleared by CME
4. CME's Clearing Members

Part III Application of Approval Criteria to CME
1. Governance
2. Fees
3. Access
4. Rules and Rulemaking
5. Due Process
6. Risk Management
7. Systems and Technology
8. Financial Viability and Reporting
9. Operational Reliability
10. Protection of Assets
11. Outsourcing
12. Information Sharing and Regulatory Cooperation

Part IV Submissions
1. Submissions

Part V Other Matters
1. Enclosures
2. Consent to Publication

PART I INTRODUCTION

1. CME Services to Ontario Residents

1.1 CME currently has three clearing members that have a head office or principal place of business in Ontario and that are OTC derivatives clearing members, with privileges to clear interest rate swap ("**IRS**") OTC derivatives products on their own behalf, and on behalf of their branches and affiliated companies. In addition, one of such clearing members is a Commodity Exchange Inc. ("**COMEX**") clearing member ("**COMEX Exchange Clearing Member**") that currently has

privileges to clear COMEX exchange-listed futures and options on futures on its own behalf, and on behalf of its branches and affiliated companies. It became a COMEX Exchange Clearing Member on December 1, 1997.

1.2 CME Clearport is a web-based graphical user interface owned, maintained and operated by CME to view and submit bilaterally negotiated transactions (e.g., block trades, OTC swap futures substituted for exchange-traded futures and OTC derivatives) into CME for clearing and settlement services by clearing firms and their customers in the United States ("**U.S.**"). CME ClearPort is not a clearing system as it does not clear trades or serve as a central counterparty ("**CCP**") for trades submitted via CME ClearPort to CME in the U.S.

1.3 CME does not have any offices or maintain other physical installations in Ontario or any other Canadian province or territory, except for a CME Group Inc. ("**CMEG**") marketing office in Calgary, Alberta whose activities are limited to marketing and development of energy products.

1.4 CME proposes to offer direct clearing access in Ontario to certain Canadian financial institutions (within the meaning of such term in subsection 1.1(3) of National Instrument 14-101 Definitions) that have a head office or principal place of business in Ontario as clearing members with privileges to clear OTC derivative products ("**OTC Derivatives Clearing Members**"), and/or exchange-traded futures and options on futures on one or more of CME, COMEX, Board of Trade of the City of Chicago, Inc. ("**CBOT**"), New York Mercantile Exchange, Inc. ("**NYMEX**") and Board of Trade of Kansas City, Missouri, Inc. ("**KCBT**") (together, the "**CMEG Exchanges**") (individually, "**CME Exchange Clearing Member**", COMEX Exchange Clearing Member, "**CBOT Exchange Clearing Member**" and "**NYMEX Exchange Clearing Member**", and collectively, the "**CMEG Exchange Clearing Members**") (together with the clearing members referred to in paragraph 1.1, the "**Ontario Clearing Members**").

1.5 CME proposes to offer direct clearing access in Ontario to the Ontario Clearing Members, for purposes of clearing the OTC derivative products and exchange-traded futures and options on futures products described in paragraph 3.1 of Part II of this Application.

2. Background to the Application

2.1 On June 8, 2012, CME submitted an application for a temporary exemption from subsection 21.2(0.1) of the OSA. The OSC granted the order effective June 19, 2012, with a termination date on the earlier of (i) June 30, 2013, and (ii) the effective date of a subsequent order exempting CME from the requirement to be recognized as a clearing agency pursuant to section 21.2(0.1) of the OSA ("**Interim Order**"). CME subsequently applied for, and obtained, an order from the OSC on August 31, 2012 to vary the Interim Order by extending the deadline for submission of an application for an exemption from subsection 21.2(0.1) of the OSA until September 10, 2012. CME currently carries on business in Ontario pursuant to the Interim Order, as varied on August 31, 2012.

PART II BACKGROUND TO CME

1. Regulatory Oversight of CME

1.1 The primary legislation for derivatives clearing organizations ("**DCOs**") such as CME is the U.S. Commodity Exchange Act ("**CEA**"). In July 2010, the U.S. Congress passed the *Dodd Frank Wall Street Reform and Consumer Protection Act* ("**Dodd Frank Act**"), which amended the CEA and thus provides the U.S. Commodity Futures Trading Commission ("**CFTC**"), a U.S. federal regulatory agency, with the authority to pass additional regulations in relation to its oversight of DCOs and other registered entities. The primary regulations issued by the CFTC that are applicable to DCOs may be found in Part 39 of the CFTC regulations.

1.2 The CFTC conducts periodic examinations and holds regular meetings with employees of CME to analyze a variety of different topics including CME's compliance with the DCO core principles ("**DCO Core Principles**") and the related regulations promulgated thereunder. The DCO Core Principles are listed below:

- Core Principle A: Compliance with Core Principles;
- Core Principle B: Financial Resources;
- Core Principle C: Participant and Product Eligibility;
- Core Principle D: Risk Management;
- Core Principle E: Settlement Procedures;
- Core Principle F: Treatment of Funds;

- Core Principle G: Default Rules and Procedures;
- Core Principle H: Rule Enforcement;
- Core Principle I: System Safeguards;
- Core Principle J: Reporting;
- Core Principle K: Recordkeeping;
- Core Principle L: Public Information;
- Core Principle M: Information-Sharing;
- Core Principle N: Antitrust Considerations;
- Core Principle O: Governance Fitness Standards;
- Core Principle P: Conflicts of Interest;
- Core Principles Q: Composition of Governing Boards;
- Core Principle R: Legal Risk.

1.3 On an ad hoc basis, the CFTC examines CME in relation to its compliance with one or more of the DCO Core Principles listed above. These examinations generally cover various different DCO Core Principles with particular emphasis on financial resources and risk management. In addition to these periodic examinations, CFTC staff meets with CME to review margin models and analyze margin coverage on a bi-weekly basis.

1.4 CME also has numerous reporting obligations under CFTC Regulation 39.19 – *Reporting*. CME must submit both routine reports on various different cycles and event specific reports related to, among other things, significant changes to the financial profile of CME and/or its clearing members.

- Cyclical Reports
    - Daily: Reports covering initial margin, daily variation margin, all other daily cash flows and end of day positions at the clearing house;
    - Quarterly: Reports demonstrating compliance with financial resources requirements of DCOs as required by CFTC Regulation 39.11 – *Financial resources* which include projected operating costs over a 12 month period and valuation of financial resources; and
    - Annual: Report by the Chief Compliance Officer ("**CCO**"), which must contain, among other things, a description of the DCO's written policies and procedures, review policies and procedures designed to comply with each core principle, provide an assessment of the effectiveness of these policies and procedures, discuss areas for improvement, list any material changes to policies and procedures since the last report, describe resources available for compliance with the CEA and CFTC regulations and describe any material compliance matter including incidents of noncompliance.

1.5 CFTC Regulation 39.10(c) – *Compliance with core principles* mandates that all DCOs establish the position of CCO, designate an individual to serve as CCO and provide the CCO with the full responsibility and authority to develop and enforce, in consultation with the Board of Directors and senior management, appropriate compliance policies and procedures to fulfill the duties set forth in the CEA and CFTC regulations. As mentioned above the CCO for CME has numerous responsibilities related to compliance of CME with the CEA and CFTC regulations including, but not limited to:

- developing policies and procedures to ensure compliance with the CEA and applicable CFTC regulations;
- instituting and maintaining an effective compliance communication program at CME;
- developing an annual compliance work plan designed, among other goals, to review CME's compliance with the CEA and CME's compliance policies and procedures;

- preparing regular reports to CME senior management as appropriate in connection with the compliance program; and

- establishing procedures for the remediation of any noncompliance issues.

1.6 CME is both a designated contract market ("**DCM**") and a DCO within the meanings of those terms under the CEA. The DCM and DCO operations are organized under separate divisions within CME: CME Exchange Division and CME Clearing Division. CME is subject to regulatory supervision by the CFTC and is obligated under the CEA to give the CFTC access to all records unless prohibited by law or such records are subject to solicitor-client privilege. The CFTC reviews, assesses and enforces a DCO's adherence to the CEA and the regulations thereunder on an ongoing basis, including but not limited to, the DCM core principles ("**DCM Core Principles**") and DCO Core Principles relating to compliance with the core principles, financial resources, participant and product eligibility, risk management, settlement procedures, treatment of funds, default rules and procedures, rule enforcement and system safeguards.

1.7 CME is deemed to be registered with the U.S. Securities and Exchange Commission ("**SEC**") as a securities clearing agency, effective July 16, 2011, in accordance with certain provisions under Subsection 763(b) of the Dodd Frank Act, and is therefore also subject to limited regulatory supervision by the SEC in connection with its offering of clearing services for single stock and narrow-based security index products.

1.8 On July 18, 2012, CME was designated by the Financial Stability Oversight Council ("**FSOC**") as a systemically important financial market utility under Title VIII of the Dodd Frank Act.

1.9 On November 21, 2012, CME became registered with the CFTC as a swap data repository ("**SDR**") to provide SDR services supporting CDS, IRS, commodities and foreign exchange ("**FX**") asset classes through its CME Repository Service. Pursuant to sections 737 and 738 of the Dodd Frank Act, all swaps – whether cleared or uncleared – are required to be reported to SDRs, which are required to perform specified functions relating to the collection and maintenance of swap transaction data and information.

1.10 On March 11, 2013, the CFTC's clearing mandate for swaps came into effect. CFTC Regulation 50.4 – *Classes of swaps required to be cleared* provides that CDS and IRS with certain specifications are required to be cleared by a DCO under to subsection 2(h)(1) of the CEA. CME expects that the CFTC will expand the clearing mandate to cover additional classes of swaps in the future.

1.11 The CFTC is expected to release final rules establishing registration procedures for swap execution facilities ("**SEFs**") in Q2 or Q3 of 2013. SEFs are an alternative venue to DCMs for the execution of cleared swaps and, similar to the CFTC's clearing mandate, are designed to enhance transparency, promote standardization and reduce systemic risk in the swap market. Swaps offered on SEFs will be cleared at a DCO designated by one of the swap counterparties. CME will review the final SEF rules when they are released to determine the potential impact on its business.

1.12 CME is the DCO for, and provides clearing services to, each of the CMEG Exchanges. CME also serves as the CCP for all trades executed on the CMEG Exchanges and all OTC trades submitted for clearing, as described below.

2. Ownership of CME

2.1 CME is a corporation organized under the laws of the State of Delaware in the U.S. and is a wholly owned subsidiary of the CMEG, a publicly traded for-profit corporation organized under the laws of Delaware and listed for trading on the NASDAQ National Market. CMEG is the ultimate parent company of: (i) CME; (ii) CBOT; (iii) COMEX; (iv) NYMEX and (v) KCBT.

2.2 CMEG receives a majority of its revenue from clearing and transaction fees, which include electronic trading fees, surcharges for privately-negotiated transactions and other volume-related charges for contracts executed through CMEG's trading venues.

3. Products Cleared by CME

3.1 CME is one of the largest central counterparty clearing services in the world and provides clearing and settlement services for exchange-traded futures and options on futures, as well as for OTC derivatives transactions. CME clears OTC derivatives in the following asset classes: agricultural commodities; credit; energy; environmental commodities; equities; FX; interest rates; and metals. The exchange-traded futures and options on futures products cleared by CME include, but are not limited to, the following: short-term interest rates (Eurodollar, Euribor, U.S. Treasury Bills); government bonds (U.S. Treasury Bonds and Notes); medium and long-term swap rates (U.S. Dollar), narrow-based equity indices (U.S.-related S&P, NASDAQ and DJIA indices and Nikkei indices); commodity index swaps (gold, crude oil, UBS commodity index); and a broad range of commodities (e.g., gold, silver, platinum, palladium, copper, steel and

uranium, cocoa, coffee, corn, sugar, wheat, oats, soybeans, live cattle and butter). In addition, CME clears freight futures, forwards and options, iron futures, options and swap futures, fertilizer swaps and electricity swap futures. The full list of products cleared by CME is available on its website at www.cmegroup.com.

3.2 Under CME's clearing model, clearing members of CME act as agents on behalf of undisclosed principal end-users and guarantee all trades submitted by such end-users for clearing. Non-affiliate customers of CME's clearing members are generally not visible to CME. CME's clearing members grant session IDs that are associated with every trade submitted for clearing to CME. These identifiers and CME rule provisions enable CME to obtain end-user information from its clearing members when conducting an investigation or for enforcement purposes, but information about end-user customers is not otherwise created by or provided to CME.

4. CME's Clearing Members

4.1 CME's clearing members represent one of the largest memberships among derivatives clearing organizations worldwide. CME's clearing members consist of banks, securities houses/investment banks, commodity brokers and traders and, to a very limited extent, industrial companies.

PART III APPLICATION OF APPROVAL CRITERIA TO CME

The following is a discussion of how CME meets the relevant criteria for recognition and exemption for clearing agencies set out in Appendix A to OSC Staff Notice 24-702 – *Regulatory Approach to Recognition and Exemption from Recognition of Clearing Agencies* ("**Staff Notice 24-702**").

1. Governance

1.1 The governance structure and governance arrangements of the clearing agency ensures:

(a) effective oversight of the clearing agency;

(b) the clearing agency's activities are in keeping with its public interest mandate;

(c) fair, meaningful and diverse representation on the governing body (Board) and any committees of the Board, including a reasonable proportion of independent directors;

(d) a proper balance among the interests of the owners and the different entities seeking access (participants) to the clearing, settlement and depository services and facilities (settlement services) of the clearing agency;

(e) the clearing agency has policies and procedures to appropriately identify and manage conflicts of interest;

(f) each director or officer of the clearing agency, and each person or company that owns or controls, directly or indirectly, more than 10 percent of the clearing agency is a fit and proper person; and

(g) there are appropriate qualifications, limitation of liability and indemnity provisions for directors and officers of the clearing agency.

1.1.1 As a DCM and a DCO, CME is highly committed to supporting public interests of fostering fair and efficient markets, employing and enforcing sound and comprehensive risk management practices, and offering a market-leading financial safeguards package. CME is committed to ensuring the integrity of the contracts it clears and the stability of the financial system, in which market infrastructure plays an important role. CME operates on a basis consistent with best practices of other clearinghouses and exchange-traded markets.

1.1.2 CME's trade practice and market surveillance activities are conducted by its Market Regulation Department under CME's rules. The Market Regulation Department utilizes regulation advisory notices to make public notifications. The Market Regulation Department's objectives include: protecting market integrity by maintaining fair, efficient, competitive and transparent markets; issuing, monitoring and enforcing rules to protect all market participants from fraud, manipulation, and other abusive trading practices; and proactively identifying and mitigating potential risks and preventing damage to the marketplace.

Division of Management at CME

1.1.3 Each of CME's clearing and exchange operations function as separate divisions within CME (e.g., CME Clearing Division/CME Exchange Division). CME Clearing Division is headed by a President, appointed by the CEO of CME and approved by the Board of Directors, as set forth in CME Rule 801 (Management). The President of CME Clearing Division has a direct reporting line to the CEO of CME and regularly reports to the Market Regulation Oversight Committee ("**MROC**") and the Clearing House Risk Committee ("**CHRC**"). The President delegates authority for certain aspects of the daily operation of CME Clearing Division to a senior management team that includes the chief risk officer ("**CRO**"), the CCO, and a Managing Director, Audit Department.

1.1.4 As required by CFTC Regulation 39.13(c), CME Clearing Division has appointed a CRO responsible for implementing its risk management framework. The CRO makes recommendations concerning procedures, policies and controls to the applicable CME risk committees (i.e., CHRC, the Credit Default Swaps Risk Committee ("**CDSRC**"), and the Interest Rate Swaps Risk Committee ("**IRSRC**", each a "**CME Risk Committee**" hereafter and collectively referred to as the "**CME Risk Committees**"). CME Clearing Division's CRO reports directly to the President of CME Clearing Division and is ultimately responsible for supervising employees engaged in credit and market risk management. The CRO also has a direct reporting line to a non-executive director on the Board of Directors who is the chairman of the CHRC, CDSRC, and the IRSRC.

1.1.5 Also as required by CFTC Regulation 39.10(c), CME Clearing Division has appointed a CCO. The CCO has full responsibility and authority to develop and enforce appropriate compliance policies and procedures for CME Clearing Division, review CME Clearing Division's compliance with the DCO Core Principles and all other applicable legal and regulatory requirements, and resolve conflicts of interest and any other non-compliance issues that may arise. The CCO reports directly to the President of CME Clearing Division, with an additional reporting relationship to CMEG's Global Chief Compliance Officer. The CME Clearing Division CCO regularly reports to MROC.

Diversity of the Board

1.1.6 CMEG seeks candidates with a variety of talents and expertise to ensure its Board of Directors as a whole is operating effectively and is focused on creating long-term value for shareholders while ensuring the integrity of the markets.

1.1.7 The Board of Directors of CME is comprised of the same individuals as the Board of Directors of CMEG and generally operates together with the CMEG Board of Directors. CMEG believes its Board of Directors and the Boards of its member exchanges should be composed of individuals from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity and who exercise their good judgment to provide practical insights and different perspectives. In selecting candidates, the Board of Directors endeavors to find individuals who have a solid record of accomplishment in their chosen fields and who display the independence of mind and strength of character to effectively represent the best interests of the shareholders and the marketplace.

Independence of the Board

1.1.8 The experience and diversity of the Board of Directors has been, and continues to be, critical to CMEG's success. CMEG's Corporate Governance Principles require that the Board of Directors be composed of at least a majority of independent directors. Additionally, in accordance with listing standards applicable to CMEG as a public company, the members of the Audit, Compensation, Governance, and Nominating Committees must be independent. For a director to be considered independent, the Board of Directors must affirmatively determine that the director has no direct or indirect material relationship with CMEG and its subsidiaries, including CME. The Board of Directors has adopted Categorical Independence Standards to assist it in making its determinations regarding director independence. These standards conform to and exceed the independence criteria specified in the listing standards of the NASDAQ, the stock exchange that lists CMEG's shares. They specify the criteria by which the independence of the directors will be determined, including relationships and transactions between each director, any member of his or her immediate family, his or her affiliates, charitable organizations with which he or she is affiliated, and CMEG subsidiaries.

1.1.9 The Board of Directors believes that all of its non-executive directors act independently of, and effectively monitor and oversee the actions of, management. In addition, the chair of the Governance Committee acts as a lead outside director, presiding over meetings of the independent and non-executive directors and serving as the contact for shareholder communications with independent directors. Based on CMEG's Categorical Independence Standards, at its meeting held in February 2012, the Governance Committee made a preliminary assessment of the independence of the directors and director nominees and, based on this assessment, made a recommendation to the CMEG Board of Directors regarding their independence. Some of CMEG's directors are members of its CMEG Exchanges, which provides them with access to the open outcry trading floors, lower trading fees, the ability to vote on certain matters relating to the operation of the trading floors, and, for members of CME, the ability to elect six directors. Directors who are members of the CMEG Exchanges may make payments directly to the CMEG Exchanges or indirectly through a

clearing firm in connection with their trading activity on a CMEG Exchange. To ensure that such payments did not exceed the monetary thresholds set forth in the listing standards of the NASDAQ, the Governance Committee reviewed the directors' and their affiliated clearing firms' trading activities and relationships with the CMEG Exchanges as part of its independence determination. The Governance Committee and the Board of Directors noted that all payments were made in the ordinary course of business, were on terms consistent with those prevailing at the time for corresponding transactions by similarly situated unrelated third parties, and were not in excess of the applicable payment thresholds.

Nomination of Directors

1.1.10 After considering information provided by the directors and director nominees in their annual questionnaires, the payments made to CMEG relating to trading activities of directors and director nominees who are members of a CMEG Exchange, as well as additional information gathered by the Office of the Secretary, the Governance Committee recommended and the Board of Directors determined which directors and nominees should be classified as independent. More than 75% of the Board of Directors has been classified as independent.

1.1.11 As a dually-registered DCO and DCM, CME is required to ensure compliance with both the DCM and DCO Core Principles, including the maintenance of processes and procedures to address potential conflicts of interest that may arise in connection with the operation of the CME Exchange Division found in the DCM Core Principles. Significant representation of individuals who do not have relationships with the CMEG Exchanges, referred to as "public directors" in the CFTC Regulations, play an important role in CMEG's processes to address potential conflicts of interest. The Board of Directors has assessed which directors would be considered "public" directors based upon their lack of relationship with the CMEG Exchanges and the industry in accordance with CFTC Regulations. Currently 30% of the Board of Directors is comprised of public directors. Additionally, the MROC is composed solely of public directors.

1.1.12 Within the CME Clearing Division, various functional committees also have been established to oversee risk management issues and financial safeguards for CME. These committees include the CHRC, CDSRC, and IRSRC. Each CME Risk Committee represents a balanced constituency of clearing members and industry experts and is chaired by a member of the Board of Directors. These committees evaluate clearing member applications and determine whether to grant the applicant direct access to CME clearing services. The Charters of the CHRC, CDSRC and IRSRC each specify requirements regarding the appointment of members to the committees by the CME Chairman of the Board of Directors.

1.1.13 The CHRC is composed of not less than seven members, including co-chairmen who are members of the CME Board of Directors. At least five of the seven CHRC members are required to be representatives of clearing members, and at least one member of the CHRC must be a non-member of CME (i.e., neither a member of any of the CMEG Exchanges nor a representative of a CME Exchange Clearing Member or an affiliate).

1.1.14 The CDSRC is composed of not less than eleven members (and not more than sixteen members), including a chairman who must be a member of the CME Board of Directors. At least five and as many as nine members must be representatives of CDS clearing members, with a specified distribution of clearing activity designed to ensure that both large and small CDS clearing members are represented. At least two CDSRC members must be independent members (i.e., neither an employee or director of CME nor a representative of any CDS clearing member or an affiliate).

1.1.15 The IRSRC is composed of not less than eight members (and not more than sixteen members), including a chairman who must be a member of the CME Board of Directors. At least two and as many as nine members must be representatives of IRS clearing members, with a specified distribution of clearing activity designed to ensure that both large and small IRS clearing members are represented. At least two IRSRC members must be independent members (i.e., neither an employee or director of CME nor a representative of any IRS clearing member or an affiliate).

1.1.16 The CHRC is charged in its Charter with "guid[ing] the Board of CME in maintaining and enhancing CME Clearing's role as the industry leader in risk management." The CHRC advises CME Clearing Division's management on risk management issues relating to the financial condition of Clearing Members, performance bond policies for products supported by the Base Guaranty Fund and the risk implications of proposed clearing programs. The CHRC is also tasked with monitoring the sources and amounts of the financial safeguards for the Base major asset class and making recommendations to the Board of Directors with respect to any changes to the financial safeguards. The CHRC reviews and approves Clearing Member applications and material changes and is responsible for overseeing the unwinding of a Clearing Member in a default situation impacting the Base Guaranty Fund. The CHRC also has primary responsibility for reviewing and approving amendments to rules impacting CME Clearing Division and for making recommendations to the Board of Directors concerning such amendments to the CME Rules. Finally, under CME Rule 403.A (Jurisdiction and General Provisions), the CHRC may take action against a Clearing Member whose financial condition jeopardizes or may jeopardize the integrity of CME, and under CME Rule 403.C (Emergency Actions), the CHRC may take emergency action if it determines that an emergency exists and emergency action is warranted.

1.1.17 The CDSRC is established as a Committee of CME under CME Rule 8H27 (CDS Risk Committee) to provide oversight on major risk management policy issues and financial safeguards for CME's CDS clearing services, as described in Chapter 8H of the CME Rulebook. The CDSRC regularly reviews CME's financial safeguards system for CDS products, including the levels and sources of resources supporting the CDS Guaranty Fund and CME's overall risk management policies and practices relating to CDS clearing. The CDSRC reviews and approves CDS Clearing Member applications, provides guidance as to the financial deterioration of any CDS Clearing Member and is responsible for overseeing the unwinding of a CDS Clearing Member in a default situation and for convening the CME CDS Default Management Committee. The CDSRC has oversight of CME's regulatory and risk management audit functions for CDS products. The CDSRC also has primary responsibility for reviewing and approving amendments to the CME Rules concerning CDS products or directly impacting CDS clearing and CDS Clearing Members.

1.1.18 The IRSRC is established as a Committee of CME under CME Rule 8G27 (IRS Risk Committee) to provide oversight on major risk management policy issues and financial safeguards for CME's IRS clearing services, as described in Chapter 8G of the CME Rulebook. The IRSRC regularly reviews CME's financial safeguards system for IRS products and CME's overall risk management policies and practices relating to IRS clearing. The IRSRC reviews and approves IRS Clearing Member applications, provides guidance as to the financial deterioration of any IRS Clearing Member and is responsible for overseeing the unwinding of an IRS Clearing Member in a default situation and for convening the CME IRS Default Management Committee. The IRSRC has oversight of CME's regulatory and risk management audit functions for IRS products. The IRSRC also has primary responsibility for reviewing and approving amendments to the CME Rules concerning IRS products or directly impacting IRS clearing and IRS Clearing Members.

1.1.19 As described in the Corporate Governance Principles, the Board of Directors annually reviews its own performance, structure and processes in order to assess how effectively it is functioning. The assessment is implemented and administered by the Governance Committee through an annual board self-evaluation survey. In addition, the Audit, Compensation, Finance, Governance, Market Regulation Oversight, and Nominating Committees each conduct an annual self-assessment. To enhance the Governance Committee's performance, beginning in 2013, the self-evaluation process includes assessment of the performance of the individual directors. The Governance Committee is currently evaluating trends in the process for conducting such evaluation and will make a recommendation to the Board of Directors in advance of the 2013 self-evaluation process.

1.1.20 Each of the CHRC, CDSRC and IRSRC is charged with annually evaluating the adequacy of its Charter and submitting any recommended changes to the Board of Directors of CME for approval.

1.1.21 CFTC Regulation 39.13(b) mandates that every DCO establish and maintain written policies, procedures and controls, approved by the Board of Directors, that at a minimum establish an appropriate risk management framework, address the monitoring and management of risk, and provide a mechanism for internal audit. The CRO of CME is responsible for implementing the risk management framework and for making appropriate recommendations to CME's risk management committee or Board of Directors, as applicable. CME Rules 230.k and 257 govern the authority of the Board of Directors in emergencies and its ability to delegate that authority. The CHRC has authority to take emergency action under CME Rule 403.C if it determines that an emergency exists and an emergency action is warranted.

1.1.22 Senior management of CME Clearing Division reports directly to the President, who reports directly to the CEO of CME. As noted above, the CME CRO is responsible for implementing the risk management framework of CME. The CRO is the head of the Risk and Audits Department and has a direct reporting line to the President of CME and the Board-level chairman of the CHRC, CDSRC, and IRSRC. Ongoing monitoring of the Risk and Audits Department's policies and procedures is conducted by the Internal Audit Department (which conducts surveillance of the policies and procedures of CME and CMEG business units).

1.1.23 CFTC Regulation 39.10 requires each DCO to establish and staff the position of CCO. One of the CCO's duties is to review CME's compliance with the DCO Core Principles, including the risk-management framework designed by the CRO. The CCO has an additional reporting relationship to CME's Global Chief Compliance Officer and regularly reports to the MROC.

1.1.24 CME does not believe there is an inherent conflict between CME and CMEG affiliates because it is in the CMEG affiliates' interests to ensure the integrity of CME. Nonetheless, CME has governance arrangements in place to deter potential conflicts.

1.1.25 The MROC, which is composed entirely of public directors, receives regular reports from CMEG Exchange staff and determines whether the CRO and the Managing Director, Audit Department are able to implement their department's self-regulatory responsibilities free from improper interference or influence. As noted above, the CCO of CME ensures compliance with the DCO Core Principles and reports directly to the MROC.

1.1.26 CME Risk Committee members are specifically charged with evaluating the matters before them with regard to maintaining the financial integrity of the CME Clearing Division, rather than with regard to the interests of any clearing firm of whom the committee member is a representative. This standard is set forth in the agreements signed by each CME Risk Committee member, and it is included in the CHRC, CDSRC and IRSRC Charters.

1.1.27 In addition, CMEG has adopted general policies and procedures to address potential conflicts of interest. In order to ensure that the Board of Directors effectively avoids or minimizes conflicts of interests and quickly resolves any that arise, the Board of Directors has adopted a code of ethics, a conflict of interest policy, and a related party approval policy. In accordance with these policies, members of the Board of Directors are required to act in the best interests of the organization, disclose any potential for the director to receive any private benefit in connection with a matter being presented to the Board of Directors, and to preserve the confidentiality of information provided to them, as well as not to use their positions for their personal benefit.

1.1.28 Additionally, certain transactions in which a director or executive officer would have a material benefit must be approved by the Audit Committee of CMEG. As an example, members of the Board of Directors must recuse themselves from both the deliberations and voting with respect to any "significant action", as defined in each of the CMEG Exchange's Rule 234 (Avoiding Conflicts of Interest in "Significant Actions"), if the Board member knowingly has a direct and substantial financial interest in the result of the vote, based upon either CMEG Exchange or non-CMEG Exchange positions that could reasonably be expected to be affected by the action, or is otherwise conflicted based on existing CMEG Exchange policy.

1.1.29 CMEG has also adopted a Code of Conduct which applies to all employees, including the executive officers of the CMEG Exchange. The provisions of the Code of Conduct address potential and actual conflicts of interest. On an annual basis, employees are required to certify that they have received and agree to abide by the provisions of the Code of Conduct.

1.1.30 Members of Board and non-Board level committees also are subject to CME Rule 300.F (Use of Disclosure of Material, Non-Public Information), which prohibits use or disclosure of material non-public information obtained by committee members as a result of their participation on such committees.

1.1.31 The members of the Management Team of CMEG have the same titles at CME. Under CME's Corporate Governance Principles, Directors should have the highest professional and personal ethics and values, the relevant expertise and experience required to offer advice and guidance to the President, the ability to make independent analytical inquiries, an understanding of CME's business and should be willing to devote adequate time and effort to Board of Directors responsibilities. Each Director is expected to ensure that his or her other commitments do not materially interfere with his or her service overall as a Director. Board members are nominated by the CMEG Nominating Committee. CME's Bylaws specify that no member of the Board of Directors or any Committee established by CME shall be eligible to serve on the Board of Directors or any such Committee if the individual has committed a "disciplinary offense" as defined by CME Rule 300.D (Disqualification from Certain Committees and Governing Boards).

1.1.32 As noted above in paragraph 1.1.29, CMEG has also adopted a Code of Conduct that applies to all employees, including the executive officers of CME. The provisions of the Code of Conduct address conflicts of interest, anti-competitive conduct, discrimination, and fairness, among other areas that bear upon fitness and propriety. On an annual basis, employees are required to certify that they have received and agree to abide by the provisions of the Code of Conduct.

1.1.33 CMEG's independent Nominating Committee recommends candidates for election to the Board of Directors who are submitted to the shareholders for approval. In considering candidates for the Board of Directors, the Nominating Committee considers the entirety of each candidate's credentials, including their representation of diverse viewpoints. With respect to the nomination of current directors for re-election, the individual's contributions to the Board of Directors are also considered. In assessing new candidates for the Board of Directors, CMEG has not adopted a set of firm criteria that an individual must meet to be considered. The Nominating Committee reviews the qualifications and backgrounds of potential directors in light of the needs of the Board of Directors and CMEG at the time and selects a slate of Equity director nominees to be nominated for election at the annual meeting of shareholders. In evaluating potential director nominees, the Nominating Committee will take into consideration, among other factors, whether the nominee:

- has the highest professional and personal ethics and values;
- is independent of management under the Categorical Independence Standards (a copy of which is available at http://investor.cmegroup.com/investor-relations/independence.cfm);
- has the relevant expertise and experience required to offer advice and guidance to CMEG's CEO;

- helps the Board of Directors reflect the industry diversity of interest composition requirements set forth in the CMEG bylaws (See Section 3.5 of the bylaws available at http://investor.cmegroup.com/investor-relations/corporate-policies.cfm);
- has the ability to make independent analytical inquiries;
- can dedicate sufficient time, energy and attention to the diligent performance of his or her duties;
- has the ability to represent the interests of the shareholders of CMEG and to create long-term value;
- has any special business experience and expertise in a relevant area;
- would be considered an audit committee financial expert or financially literate, as such terms are defined in applicable rules, regulations and listing standards; and
- has an understanding of CME Group's business, products, market dynamics, and customer base.

CME's Certificate of Incorporation Article FIFTH limits liability for directors for breach of duty, except for liability (i) for any breach of the director's duty of loyalty to CME or its shareholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit. CME Bylaws Article VII and CME Rule 256 (Indemnification of Certain Persons) provide that CME will indemnify directors and officers of CME to the maximum extent allowable under law.

2. Fees

2.1 All fees imposed by the clearing agency are equitably allocated. The fees do not have the effect of creating unreasonable barriers to access.

2.1.1 For the majority of products, clearing fees are charged for the service of clearing and guaranteeing trades and execution fees for transactions executed through the proprietary CME Globex trading system or through open outcry. Certain other activities related to trading and delivery, such as back office position transfers, give-up transfers, and options exercise and assignments also incur fees which are all listed in the applicable fee schedule.

2.1.2 In certain circumstances, CME and the other CMEG Exchanges will create market making or other incentive programs to enhance market liquidity. Such programs may include a variety of fee incentives in return for liquidity providing services. These programs are considered to be rules under the CEA and are all reviewed by the CFTC during a ten business day self-certification period prior to implementation. Clearing fee incentive programs are generally also subject to the review of the SEC due to CME being deemed as a registered clearing agency with the SEC under the Dodd Frank Act. Uniformly included in all of CMEG's program self-certification filings to the CFTC is CMEG's analysis of how participants are selected, and how the eligibility criteria comply with the DCO Core Principles depending on the program type. Any questions that the CFTC has prior to implementation of a program related to compliance with the CEA and/or the DCO Core Principles, including selection criteria, must be answered by CMEG staff prior to implementation.

2.2 The process for setting fees is fair and appropriate, and the fee model is transparent.

2.2.1 Product fee determinations occur through collaboration between research teams and product line management teams at CMEG. Fees are differentiated at the product level by a number of different factors, including historical prices of similar products cleared by CME and the expected demand for the product. All fees for all products cleared by CME are publicly available on the CMEG website. Furthermore, all incentive programs offered by CME are publicly filed with the CFTC and SEC and are subject to regulatory review in light of the relevant CFTC and SEC regulations.

3 Access

3.1 The clearing agency has appropriate written standards for access to its services.

Access to CME

3.1.1 The membership requirements of CME are objective, publicly disclosed and permit fair and open access. There are five types of clearing memberships (CME, CBOT, NYMEX, COMEX and OTC) which provide clearing members with the right to clear different types of products. For example, CBOT Exchange Clearing Members may clear products traded on CBOT whereas NYMEX Exchange Clearing Members may clear products traded on NYMEX. OTC Derivatives

Clearing Members may only clear OTC products with CME. The only cross-over between clearing membership types is the ability of CME Exchange Clearing Members to expand their clearing memberships (subject to meeting certain requirements of CME) to allow them to clear OTC products as well. The standards for each different clearing membership type are applied on a uniform basis to all clearing members and clearing member applicants.

3.1.2 CME Rules 901 (General Requirements and Obligations), 8G04 (IRS Clearing Member Obligations and Qualifications), 8H04 (CDS Clearing Member Obligations and Qualifications) and 8F004 (OTC Clearing Member Obligations and Qualifications) set out the high level requirements and obligations for various types of members of CME. For example, all clearing members must meet certain operational and financial thresholds. More detail on the requirements for clearing members may be found in Chapters 8 (Clearing House and Performance Bonds) and 9 (Clearing Members) of the CME Rulebook, which set out the admission and eligibility standards that applicants for clearing membership must satisfy to become a CMEG Exchange Clearing Member of CME. Please note that IRS OTC, CDS OTC and OTC clearing members are all collectively under the rubric of OTC Derivatives Clearing Members.

3.1.3 Among other requirements, these standards require that the applicants for CMEG Exchange Clearing Member must:

- have all necessary licenses to become a CMEG Exchange Clearing Member;
- have all necessary memberships or made required membership deposit of:
    - if CME: 2 CME divisions, 2 International Money Market ("**IMM**") divisions, 2 Index and Option Market ("**IOM**") divisions and 1 Growth and Emerging Markets ("**GEM**") division;
    - if CBOT: 2 CBOT FULL memberships;
    - if NYMEX: 2 NYMEX FULL memberships;
    - if COMEX: 2 COMEX FULL memberships
    - if OTC: US$5 million membership deposit if not already a CMEG Exchange Clearing Member;
- meet minimum capital requirements of the greatest of:
    - US$5 million if conducting futures/options on futures;
    - US$20 million if guaranteeing locals trading on CME ClearPort who are not otherwise Eligible Contract Participants;
    - US$50 million if conducting OTC activity;
    - CFTC or SEC minimum regulatory capital requirements;
- have made a contribution to the Guaranty Fund of:
    - US$500,000 if conducting futures/options; or
    - US$2.5 million if conducting OTC (except CDS or IRS);

      PLUS
    - US$50 million for IRS clearing membership;

      PLUS
    - US$50 million for CDS clearing membership.
- satisfy the applicable CMEG Exchange(s) as to its fitness and propriety, financial, operational, technical, and risk management capacity and competence; and
- satisfy the applicable CMEG Exchange(s) that it has written anti-money laundering, risk management, disaster recovery, and business continuity policies.

3.1.4 All of the CMEG Exchange clearing membership requirements are designed to permit fair and open access while protecting the CMEG Exchanges, CME and its CMEG Exchange Clearing Members. A CMEG Exchange does not intend to deny an applicant membership in the CMEG Exchange if it satisfies all of the CMEG Exchange clearing membership requirements.

Membership application process

3.1.5 To apply for CMEG Exchange clearing membership, an applicant must complete a CMEG Exchange Clearing Member Application and Agreement for Membership ("**Clearing Member Application**") and submit them with the required documentation to CME. The Audit Department of CMEG, which conducts financial surveillance of CMEG Exchange Clearing Members and OTC Derivatives Clearing Members, will initially review the submitted application and request additional information from the applicant, if necessary. After the Audit Department determines that the application is complete, it will submit the application for review and consideration by the CHRC, IRSRC or CDSRC as applicable, which will make the final determination of whether the applicant meets the objective and fair standards for clearing membership for the applicable CMEG Exchange. Each CME Risk Committee is made up of senior level employees of CME and representatives of the constituent group of clearing members (i.e., IRS clearing member representatives on the IRSRC).

3.1.6 CME anticipates that the CME Risk Committee review will take place within eight weeks of receipt of the completed application. The CME Risk Committee will notify the applicant in writing of its decision.

3.1.7 CME maintains records of its CMEG Exchange Clearing Member and OTC Derivatives Clearing Member application reviews and any resulting hearings or appeals. Complete records are maintained for each CMEG Exchange Clearing Member and OTC Derivatives Clearing Member.

3.1.8 Any applicant whose request to become a CMEG Exchange Clearing Member or OTC Derivatives Clearing Member is denied will be provided with an explanation and reasons for the decision. An applicant whose application is denied may appeal to the Board of Directors only on the basis that the CME Risk Committee's determination was arbitrary, capricious, or an abuse of its discretion.

3.2 The access standards and the process for obtaining, limiting and denying access are fair and transparent. A clearing agency keeps records of

(a) each grant of access including, for each participant, the reasons for granting such access, and

3.2.1 The CME Risk Committee is responsible for reviewing and approving or rejecting applications for clearing membership and all CMEG Exchange Clearing Member mergers, changes and withdrawals.

3.2.2 The CME Audit Committee will review all clearing member applications in light of the requirements (financial, operational and otherwise) set out in the relevant CMEG Rulebook and the CMEG Clearing Membership Handbook. The papers submitted to the CME Risk Committee will document the review conducted by the Audit Department and the Audit Department's view on whether the applicant meets the relevant clearing membership requirements and criteria. The documentation provided to the meetings, as well as the minutes documenting the discussion held at the CME Risk Committee meeting will be retained in accordance with CME's document retention procedures and obligations.

(b) each denial or limitation of access, including the reasons for denying or limiting access to an applicant.

3.2.3 As stated above, all applications for access (membership) will be considered by the CME Risk Committee. The papers and minutes relating to these meetings will document the reasons why the CME Risk Committee approved or denied access to an applicant and will be retained in accordance with CME's document retention policy.

4. Rules and Rulemaking

4.1 The clearing agency's rules are designed to govern all aspects of the settlement services offered by the clearing agency, and

(a) are not inconsistent with securities legislation,

(b) do not permit unreasonable discrimination among participants, and

(c) do not impose any burden on competition that is not necessary or appropriate.

4.1.1 Chapters 8 (Clearing House and Performance Bonds) and 9 (Clearing Members) of the CME Rulebook and any other rules, policies, advisories or procedures that meets the definition of "Rule" under CFTC Regulation 40.1 – *Definitions* (collectively the "**CME Rules**") are available on an unrestricted basis to the public and may be found on the CMEG website (www.cmegroup.com). The CME Rules are designed to fulfill the obligations of CME with the requirements set forth in the CEA and CFTC regulations. The CME Rules are not inconsistent with applicable derivatives regulations, do not permit unreasonable discrimination among participants and do not impose any burden on competition that is not necessary or appropriate. The CME Rules are subject to the self-certification and/or approval procedures contained in CFTC Regulation 39.4 – *Procedures for implementing derivatives clearing organization rules and clearing new products* ("**CFTC Regulation 39.4**"), Part 40 of the CFTC regulations ("**CFTC Part 40**") and, in the case of new cleared-only products, CFTC Regulation 39.5 – *Review of swaps for Commission determination on clearing requirement* ("**CFTC Regulation 39.5**"). Please note that CME was deemed to be a systemically important financial market utility on July 18, 2012, and as a result of this designation, CME is subject to CFTC Regulation 40.10 – *Special certification procedures for submission of rules by systemically important derivatives clearing organizations* ("**CFTC Regulation 40.10**"), as described below.

4.2 The clearing agency's rules and the process for adopting new rules or amending existing rules should be transparent to participants and the general public.

4.2.1 The CME Rules must be self-certified or approved with the CFTC depending on the type of rule and the potential impact on the marketplace. In all cases, the rule will be submitted to the CFTC for review and then posted publicly (on the CMEG and CFTC websites at www.cmegroup.com and www.cftc.gov) with the exception of portions of a rule filing which qualify for confidential treatment under CFTC Regulations 40.8 – *Availability of public information* and 145.9 – *Petition for confidential treatment of information submitted to the Commission*. In most circumstances, CME has the obligation to concurrently post its rule filings on the CMEG website. An overview of the most relevant portions of CFTC Regulation 39.4, CFTC Part 40 and CFTC Regulation 39.5 is provided below.

4.2.2 **CFTC Regulation 39.4**: This regulation sets out the different avenues through which a registered DCO may implement new rules. A DCO may seek approval for new rules via the procedures of Regulation 40.5 – *Voluntary submission of rules for Commission review and approval* ("**CFTC Regulation 40.5**") (see CFTC Regulation 39.4(a)), may self-certify or notify new rules via the procedures of CFTC Regulation 40.6 – *Self-certification of rules* ("**CFTC Regulation 40.6**") (see CFTC Regulation 39.4(b)), may accept new cleared only products for clearing via the procedures CFTC Regulation 39.5 (see CFTC Regulation 39.4(c)), may request an order concerning the competitive impact of a new rule (see CFTC Regulation 39.4(d)) and may seek portfolio margining relief via the procedures of CFTC Regulation 40.5 (see CFTC Regulation 39.4(e)).

4.2.3 **CFTC Regulation 39.5**: Pursuant to the procedures of Regulation 39.5, a DCO must submit certain information to the CFTC that it will use to make a clearing determination prior to accepting any new swap for clearing. If the swap is within a group, category, type or class of swap that the DCO already accepts for clearing, this submission must be made at least one business day prior to the DCO accepting the swap for clearing. The submission should include, among other things, quantitative and qualitative assessments of:

(a) the existence of significant outstanding notional exposures, trading liquidity, and adequate pricing data;

(b) the availability of rule framework, capacity, operational expertise and resources, and credit support infrastructure to clear the contract on terms that are consistent with the material terms and trading conventions on which the contract is then traded;

(c) the effect on the mitigation of systemic risk, taking into account the size of the market for such contract and the resources of the derivatives clearing organization available to clear the contract;

(d) the effect on competition, including appropriate fees and charges applied to clearing; and

(e) the existence of reasonable legal certainty in the event of the insolvency of the relevant derivatives clearing organization or one or more of its clearing members with regard to the treatment of customer and swap counterparty positions, funds, and property.

4.2.4 Where a swap is not within the group, category, type or class of swap that the DCO already clears, it must seek confirmation of its eligibility to clear the swap prior to submitting the swap for a clearing determination as described above.

4.2.5 **CFTC Regulation 40.5**: Pursuant to the procedures of CFTC Regulation 40.5, a DCO may seek approval for a new rule or the establishment of a portfolio margining program. Such approval will only be provided by the CFTC where the new rule or rule amendment is not inconsistent with the CEA or the CFTC's regulations. CFTC Regulations 40.5

submissions must, among other things, contain the text of the rule or rule amendment, a proposed effective date, provide an explanation and analysis of the purpose of the rule and its compliance with the CEA and DCO Core Principles, must certify that the submission was posted on the registered entity's public website and provide a brief explanation of any relevant substantive opposing views to the new rule or rule amendment. All new rules or rule amendments will be deemed approved within 45 days of their submission unless previously approved by the CFTC or extended per the CFTC's authority under CFTC Regulation 40.5(d).

4.2.6 **CFTC Regulation 40.6**: Pursuant to the procedures of CFTC Regulation 40.6(a), a DCO may self-certify certain new rules and rules changes with the CFTC. These self-certifications are subject to a ten business day review period and must, among other things, be posted concurrently on the registered entity's public website, include the text of the rule, must include the date of implementation of the rule, contain a concise analysis of how the new rule or rule amendment complies with the CEA and core principles and include a brief explanation of any opposing views to the new rule or rule amendment. The CFTC has the authority under CFTC Regulation 40.6(c) to stay the new rule or rule amendment for 90 days during the 10 business day self-certification and during this stay there will be a 30 day public comment period on the rule. CFTC Regulation 40.6(d) provides registered entities with the option to provide after the fact notifications of certain non-material rule changes including non-substantive revisions and de minimis fee changes.

4.2.7 **CFTC Regulation 40.10**: This regulation only applies to DCOs deemed to be systemically important by the U.S. Financial Stability Oversight Council. All new rules and rule amendments by DCO's deemed systemically important that could materially affect the nature or level or risks presented by the DCO are subject to a 60 day advance notification requirement under CFTC Regulation 40.10. All CFTC Regulation 40.10 submissions must meet the filings requirements contained in CFTC Regulation 40.6(a) above and describe the nature of the change and expected effect on the risks to the systemically important DCO, its clearing members and the market along with an explanation of how the systemically important DCO plans to manage the identified risks. These submissions must also be concurrently provided to the Board of Governors of the Federal Reserve System. Information about the definition of "materiality" may be found in CFTC Regulation 40.10(b).

4.2.8 As noted in paragraph 1.8 of Part II above, CME was designated by the FSOC as a systemically important financial market utility under Title VIII of the Dodd Frank Act on July 18, 2012. An additional consequence of this designation is that CFTC Regulation 40.10 and Federal Reserve Regulation HH: Financial Market Utilities ("**Regulation HH**") apply to CME and require it to give the CFTC and the Board of Governors of the Federal Reserve "not less than 60 days advanced notice of any proposed change to [CME's] rules, procedures or operations that could materially affect the nature or level of risks presented by" CME as a DCO. Such changes may include, but are not limited to, "changes that materially affect financial resources, participant and product eligibility, risk management (including matters relating to margin and stress testing), daily or intraday settlement procedures, default procedures, system safeguards … and governance."

4.2.9 In addition to the advance notice requirements, Regulation HH contains risk management standards for systemically important financial market utilities but Section 234.1 of Regulation HH specifically exempts "derivatives clearing organizations registered under Section 5b of the Commodity Exchange Act" from compliance with these standards. CME is registered under Section 5b of the CEA. Thus, the only material consequence for CME of being designated as a systemically important financial market utility at this juncture is being subject to an enhanced review requirement for certain material changes to CME.

4.3 The clearing agency monitors participant activities to ensure compliance with the rules.

General Overview

4.3.1 CME monitors its clearing members' (futures commission merchant ("**FCM**") and non-FCM) compliance with clearing house rules and CFTC regulations covering minimum financial, segregation/secured/ sequestered, recordkeeping, and reporting requirements through a variety of ways including routine risk-based examinations in addition to daily, semi-monthly, monthly and annual submissions of various required financial information.

4.3.2 The CFTC has oversight responsibility of the U.S. commodity industry. The clearing houses and National Futures Association ("**NFA**") have been given primary responsibility for ensuring market participants are adhering to rules and regulations. The Joint Audit Committee ("**JAC**") was formed to enhance uniformity among participants as well as lessen the regulatory burden for firms which are members of multiple exchanges.

4.3.3 The JAC is a representative committee of the Audit and Financial Surveillance departments of U.S. clearing houses and regulatory organizations. Through the JAC, FCMs are assigned a lead commodity regulator referred to as the designated self-regulatory organization ("**DSRO**"). The DSRO is responsible for performing risk-based examinations designed to meet the goals of customer protection and exchange financial integrity. Such examinations (of both FCMs and non-FCMs) are conducted in accordance with the JAC Audit Program, which is reviewed by the CFTC. On a

quarterly basis, the CFTC reviews a sample of the examinations performed by DSROs to ensure DSROs are performing examinations in accordance with the JAC Audit Program. The CFTC may, at its discretion, perform its own examination of an FCM.

4.3.4 The CFTC requires that a risk-based examination be performed of an FCM within nine to eighteen months of the "as of" date of the previous examination. In performing a risk-based examination, an assessment is made of the FCM so that areas of risk are targeted for review. While the work performed helps ensure that the firm is in compliance with capital, segregation/secured/sequestered, recordkeeping, and reporting requirements, some sections of the JAC Audit Program may not be performed on every examination. However, all core program sections must be performed, as applicable, at least once every three examination cycles.

Risk-Based Examination Overview

4.3.5 Risk-based auditing allows the evaluation of a firm's risks to determine the level and degree of testing to be performed. As a result, the planning and scope-setting process is a critical element in performing a risk-based exam. The following information of a firm is utilized to determine appropriate testing including, but not limited to results of preliminary risk analysis review, significant financial trends noted in the monthly monitoring of the firm, past audit results, customer base, lines of business, significant growth, customer complaints, recent mergers or acquisitions and new regulations.

4.3.6 A risk-based examination is composed of three parts:

(a) General

4.**3.7** In addition to other items, a general questionnaire is completed which documents the firm's financial, operational and risk management procedures and practices. Topics covered include, among other things, the controls, policies, personnel, and systems of the firm's financial records, changes in relationships with third parties, account monitoring procedures (margining and risk management analysis), customer, proprietary, noncustomer, and affiliate trading and segregation of cash and settlement responsibilities.

(b) Compliance

4.3.8 Compliance testing is performed to ensure FCMs and non-FCMs, their branch offices and their guaranteed introducing brokers are in compliance with applicable requirements. The JAC Audit Program contains the following compliance areas which must be completed at least once every three examination cycles: Books and Records, Customer Accounts, Discretionary Accounts, Margins, Anti-Money Laundering, Disaster Recovery, Sales Practice and Privacy Rules.

(c) Financial

4.3.9 The financial audit programs review the firm's procedures for reconciling its account balances, presenting financial information, computing net capital, and reporting segregation, secured and sequestered amounts. There are four regulatory financial statements which are reviewed in a risk-based examination:

- The Net Capital Computation reflects the firm's net capital amount which is computed as current assets less liabilities (adjusted for subordinated debt) less applicable haircuts/charges.
- The Segregation Statement reflects balances related to U.S. and foreign domiciled customers' commodity trading activities on U.S. commodity exchanges protected under CFTC regulations. Specifically, this statement demonstrates that the firm has enough assets in segregated accounts to pay all segregated customer liabilities. Firms are required to prepare daily segregation computations and maintain segregated funds to meet all segregated liabilities on all days in accordance with CFTC regulations.
- The Secured 30.7 Statement reflects balances related to customers' commodity trading activities on foreign commodity exchanges protected under CFTC regulations.
- The Sequestered Statement reflects balances related to customers' trading activities in Cleared OTC Markets. CME currently has rules and regulations pertaining to the sequestration statement which are similar to the CMEG Exchange rules and regulations regarding segregation. The CFTC regulations regarding Cleared OTC products will be effective in November 2012.

4.3.10 The JAC Audit Program contains the following financial areas which must be completed at least once every three examination cycles: Cash at Banks, Securities, Receivables from/Payables to and Deposits with U.S./Foreign Commodity Clearing Organizations, Receivable from/Payables to Registered FCMs and Foreign Commodity Brokers,

Receivables from Traders on U.S. and Foreign Boards of Trade, Equities in Customers', Noncustomers', and General Partners' Commodity Accounts, Liabilities Subordinated to Claims of General Creditors, Subsequent Review and Statement of the Computation of the Minimum Capital Requirements.

4.3.11 The above descriptions are meant as a general guide to what the JAC reviews. It is not meant to be an exhaustive list of all the audit steps performed or the areas reviewed. There are several additional JAC Audit Programs which are not required to be performed, but may be performed if considered necessary.

Audit Conclusions

4.3.12 All risk-based examinations are reviewed by the audit team's management and the results discussed with the firm's management. A report is issued to the firm's senior management noting significant problems and material adjustments (hereafter jointly referred to as "**exceptions**") and requesting, if necessary, a written response addressing the items noted. The relevant CME Risk Committee will review risk based examination reports that contain exceptions and may take disciplinary action against the firm if deemed appropriate. Such disciplinary action may include letters of warning or charging the firm with CMEG Exchange violations. Once charged, a firm has the option of offering a settlement, appearing before the CME Risk Committee and/or requesting a hearing.

4.3.13 In addition to risk-based examinations, the following financial information is also submitted to the Audit Department (by FCM clearing members) and the NFA (by FCMs for which the NFA is the DSRO) as indicated:

(a) Limited Reviews

4.3.14 On a surprise basis, outside of the regular risk-based examinations, limited reviews of customer segregated, secured 30.7 and sequestered statements are performed in accordance with a review program adopted by the JAC.

(b) Daily Submissions

4.3.15 Effective May 1, 2012, all FCM clearing members are required to file daily segregated, secured 30.7 and sequestered statements as described above. Excess funds must be maintained at all times.

(c) Semi-Monthly Submissions

4.3.16 Effective July 1, 2012, all FCM clearing members are required to file semi-monthly reports of investments reflecting how customer segregated, secured 30.7 and sequestered funds are invested and where those funds are held. The report identifies the type of investment as well as the identity of and dollar amount held at each depository utilized. Such investments are reviewed for compliance with CFTC Regulation 1.25 – *Investment of customer funds*.

(d) Monthly Submissions

4.3.17 On a monthly basis, FCM and non-FCM clearing members are required to file a suite of financial statements including, but not limited to, a balance sheet, capital computation, net income statement and segregation/secured/sequestered statements. Such statements are reviewed for compliance with minimum financial requirements and unusual trends are highlighted and discussed with the firm.

(e) Annual Submission

4.3.18 As of an FCM or non-FCM clearing member's fiscal year end, a certified independent public accounting report must be submitted. Statements of financial condition, net capital computation, income (loss), cash flows, changes in ownership equity, changes in liabilities subordinated to the claims of general creditors, segregation/secured/sequestered statements, in addition to various other statements and footnotes, must be filed. An Accountant's Report and Accountant's Report on Material Inadequacies must also be submitted for review.

4.3.19 Any exception noted in the above reviews may also be taken to the CME Risk Committee for review. If an exception was noted, the same procedure identified for risk-based audits above would be followed.

4.4 The rules set out appropriate sanctions in the event of non-compliance by participants.

4.4.1 The following CME Rules summaries briefly set out the policies and procedures with respect to non-compliance by clearing members.

4.4.2 **CME Rule 403 (Clearing House Risk Committee) ("CME Rule 403")**: The relevant CME Risk Committee may conduct investigations, issue charges and consider offers of settlement on its own initiative or by referral from CME

staff, the Probable Cause Committee, or the Business Conduct Committee ("**BCC**"). The CME Risk Committee may take appropriate action if it determines that a clearing member's financial condition jeopardizes or may jeopardize the integrity of CME. The CME Risk Committee has jurisdiction to enforce the CME Rules pertaining to: (i) the financial integrity of clearing members, and (ii) a clearing member's business conduct of and compliance with the CME Rules.

4.4.3 A respondent that is the subject of an investigation or charges may submit for the CME Risk Committee's consideration a written offer of settlement in disposition of such investigation or charges, and may do so without admitting or denying the CME Rule violations provided that an offer must include consent to entry of the CME Risk Committee's findings and penalty to be imposed. If the Audit or Market Regulation Department does not oppose the respondent's offer of settlement, the written offer and the Audit or Market Regulation Department's supporting statement will be submitted to the CME Risk Committee for consideration. If the Audit or Market Regulation Department opposes an offer of settlement, the written offer and the Audit or Market Regulation Department's written opposition shall be submitted to the CME Risk Committee. If the CME Risk Committee accepts the offer, a written decision setting forth the CME Risk Committee's findings and sanction shall be issued, and written notice of the decision shall be given to the respondent. If the CME Risk Committee rejects the offer, the respondent will be notified of the rejection and the offer will be deemed withdrawn. If an offer is withdrawn or rejected by the CME Risk Committee, the respondent shall not be deemed to have made any admissions by reason of the offer and shall not otherwise be prejudiced by having submitted the offer.

4.4.4 Under CME Rule 403.C., the following events and/or conditions may constitute emergencies:

(a) any circumstances which may materially affect the performance of contracts traded on CME, including failure of the payment system;

(b) any action taken by the United States or any foreign government or any state or local government body, any other contract market, board of trade, or any other exchange or trade association (foreign or domestic), which may have a direct impact on trading on CME;

(c) the actual or threatened bankruptcy or insolvency of any clearing member or the imposition of any injunction or other restraint by any government agency, court or arbitrator upon a clearing member of CME which may affect the ability of that clearing member to perform on its contracts;

(d) any circumstance in which it appears that a clearing member or any other person or entity has failed to perform contracts, is insolvent, or is in such financial or operational condition or is conducting business in such a manner that such person or entity cannot be permitted to continue in business without jeopardizing the safety of customer funds, clearing members, and/or CME; and/or

(e) any other circumstance which may have a severe, adverse effect upon the functioning of CME, except that declarations of Force Majeure and actions taken with respect to such declarations will be governed by the provisions of CME Rule 701.

4.4.5 The CME Risk Committee is authorized to determine whether an emergency exists and whether emergency action is warranted. If the CME Risk Committee determines that an emergency exists, it may take appropriate emergency action. All emergency actions must be taken by majority vote of the committee members of the CME Risk Committee who are present. The CME Risk Committee must promptly notify the Board of Directors and the CFTC of the emergency action in accordance with CFTC regulations.

4.4.6 Appeals of administrative fines in excess of US$25,000 are heard by a panel comprised of the co-chairman and three members of the CME Risk Committee, and whose decision is final. An appellant must be advised of its right to appear at the hearing and its right to be represented by legal counsel or certain prescribed members of CME, and may present evidence. The panel shall not set aside, modify or amend the decision appealed from unless the panel determines by a majority vote that the decision was: (i) arbitrary, capricious or an abuse of CME staff's discretion; (ii) in excess of CME staff's authority or jurisdiction; or (iii) based on a clearly erroneous application or interpretation of the CME Rules.

4.4.7 **CME Rule 974 (Suspension of Member Firm Privileges)**: If the Audit Department determines that a clearing member fails to meet the prescribed minimum financial requirements or neglects to promptly furnish a statement upon request, it may recommend that the relevant CME Risk Committee suspend the privileges of the clearing member. The CME Risk Committee, upon receiving such a recommendation from the Audit Department, will conduct a hearing into the matter. If the CME Risk Committee finds that the minimum financial requirements are being violated, it may suspend the clearing member's privileges. The CME Risk Committee must immediately notify the CFTC of any clearing member which fails to meet the minimum financial requirements.

4.4.8 If certain CME member firms prescribed under CME Rule 106 (Transfers, Security Transactions, and Authorizations to Transfer or Sell) (i) have notified CME or CME becomes aware of a "significant event", (ii) that are FCMs and fail to

meet CFTC minimum financial requirements, or (iii) neglect to promptly furnish a statement upon request, the CME Risk Committee may suspend the membership privileges of the member firm, subject to obtaining the required approval from CME management.

4.4.9 **CME Rule 976 (Suspension of Clearing Members)**: A clearing member that becomes insolvent must immediately notify CME of the insolvency. The President of CME must announce the insolvency, following which the clearing member will be deemed to be automatically suspended. If a clearing member who becomes insolvent, or is suspended from CME, the officers, owners or partners who are members of CME may also be suspended. As noted above in respect of CME Rule 403, a clearing member may be suspended by the relevant CME Risk Committee if it fails to meet the capital requirements of the CME Risk Committee or the CFTC, or if its financial condition, or the financial condition of one of its affiliates, is such that its continued operation would jeopardize the integrity of the CME.

4.4.10 **CME Rule 979 (Suspended or Expelled Clearing Members)**: If a clearing member has been suspended or expelled, it must comply with all orders of the Board of Directors, the relevant CME Risk Committee, and the President of CME. Where a clearing member refuses to comply with any order placed upon it, CME may take whatever means necessary to effect the order. A clearing member of any member suspended as a result of a clearing member's insolvency may be reinstated upon affirmative proof to the CME Risk Committee of the clearing member's financial responsibility. An exchange member may withdraw from the clearing member and may apply for reinstatement to exchange membership in CME provided that the insolvency of the clearing member was not caused by the exchange member's □ilful, reckless or unbusinesslike conduct.

5. Due Process

5.1 For any decision made by the clearing agency that affects an applicant or a participant, including a decision in relation to access, the clearing agency ensures that:

(a) an applicant or a participant is given an opportunity to be heard or make representations; and

(b) the clearing agency keeps a record of, gives reasons for, and provides for appeals or reviews of, its decisions.

5.1.1 As described in Sections 2.1, 3.1 and 4.4 above, the CME Risk Committee decides whether applicants meet the criteria for clearing membership and has the authority to investigate, issue charges and sanction clearing members for violations of the CME Rules. Where the CME Risk Committee concludes that charges should be issued against a clearing member for violation of the CME Rules, any hearing on such charges will be conducted by the BCC pursuant to the provisions of CME Rule 408 (Conduct of Hearings) ("**CME Rule 408**"). Applicants that have been denied clearing membership and clearing members subject to sanctions have the right to appeal decisions of the CME Risk Committee, the BCC and CME staff.

Appeals Process for Clearing Membership Applicants

5.1.2 All applicants to CME receive written notifications of the CME Risk Committee's decision regarding their clearing membership application. Applicants that are denied membership receive a written explanation of the reasons for the denial and have the opportunity to appeal the decision of the CME Risk Committee to the Board of Directors. This appeal must be lodged within ten days of the decision by the CME Risk Committee. The Board of Directors may approve the applicant, despite the denial by the CME Risk Committee, by a majority vote if it is satisfied that the CME Risk Committee's decision to deny membership was arbitrary, capricious or an abuse of the CME Risk Committee's discretion. The decision by the Board of Directors is final.

Appeals Process for Disciplinary Actions

5.1.3 Hearings on charges issued by the CME Risk Committee are held by the BCC pursuant to CME Rule 408. Clearing members have the right to appeal decisions of the BCC where they are found guilty of an offense and assessed a fine greater than US$10,000 or imposed a suspension or access denial greater than five business days. This appeal shall be made to an Appellate Panel made up of members of the Board of Directors and must be filed with the CME Legal Department within ten days of receiving notice of the decision. All appeal requests must be in writing and specify the grounds for the appeal and the specific error or impropriety of the original decision. The filing of this request shall stay the decision appealed unless the Market Regulation Department objects to such stay and the Chairman of the Board of Directors or BCC Hearing Panel Chair from which the appeal is taken specifically directs that the decision is not stayed pending appeal.

5.1.4 No member of the Board of Directors may serve on a particular Appellate Panel if the director has a personal, financial, or other direct interest in the matter under consideration. The Chairman of the Board of Directors shall appoint a

director to serve as the Appellate Panel chairman, who shall conduct the hearing, and two additional directors to serve on the Appellate Panel. One of these directors shall be a non-member. Any party to the appeal may request the Chairman of the Board to strike any director for good cause shown. The Chairman of the Board may then excuse such director and shall then select an alternate director from the Board of Directors. An Appellate Panel shall consist of directors that possess sufficiently diverse interests so as to ensure fairness.

5.1.5 The Appellate Panel is required to make a determination as to whether sufficient grounds exist to hold a hearing on the appeal based only on the written request. CME Rule 411 (Appeal to a Hearing Panel of the Board of Directors) states that sufficient grounds exist if there is a reasonable basis to conclude that the appellant might be able to meet one of the three appellate standards that would permit the Appellate Panel to set aside, modify, or amend the appealed decision or refusal to issue charges. The Appellate Panel may set aside, modify, or amend a decision or refusal to issue charges that (i) was arbitrary, capricious, or an abuse of the committee's discretion; (ii) was in excess of the committee's authority or jurisdiction; or (iii) was based on a clearly erroneous application or interpretation of the CME Rules.

5.1.6 If the Appellate Panel determines that the appellant has failed to prove that he might be able to meet one of these standards, it will decline to convene an appellate hearing and affirm the decision of the original committee. If, however, the Appellate Panel determines that the appellant might be able to meet one of these standards, then the Appellate Panel will allow the parties to file written briefs in further support of their arguments. The timeframe in which the written briefs must be filed is set by the CME Legal Department.

5.1.7 The parties are limited to the facts in the record. The Appellate Panel will not hear new evidence or new legal theories that were not presented to the CME Risk Committee or BCC unless the appellant can make a clear showing that the evidence or theories were not available to it at the time.

5.1.8 In addition to the avenues for appeal under the CME Rules, pursuant to CFTC Regulation 9.20 – *Notice of Appeal*, a clearing member in a disciplinary case may appeal to the CFTC. This provision provides that a clearing member may file an appeal within thirty days after receiving notice of the disciplinary action against him.

Appeal of Administrative Fines

5.1.9 Pursuant to CME Rule 852 (Surcharges for Errors, Delays and Omissions), CME staff may impose surcharges against clearing members for errors, delays and omissions with respect to trade data and certain other information required to be provided to CME. A schedule of these surcharges is updated from time to time and provided to clearing members. CME Rule 403.D. (Appeal of Administrative Fines) gives clearing members the right to appeal such surcharges if they are in excess of US$25,000. This appeal will be heard by a panel comprised of the co-chairman and three other members of the CME Risk Committee. The appellant has the right to representation at a hearing before the panel and may present evidence in support of its appeal. The panel may set aside the surcharge(s) if it finds by majority vote that the decision to impose the surcharge(s): (i) was arbitrary, capricious, or an abuse of staff's discretion; (ii) was in excess of staff's authority or jurisdiction; or (iii) was based on a clearly erroneous application or interpretation of the CME Rules.

6. Risk Management

6.1 The clearing agency's settlement services are designed to minimize systemic risk.

6.1.1 CFTC Regulation 39.11 – *Financial Resources* ("**CFTC Regulation 39.11**") requires CME to meet its financial obligations "notwithstanding a default by the clearing member creating the largest financial exposure" and to enable it to cover its "operating costs for a period of at least one year, calculated on a rolling basis." CME collects initial margin, variation margin (via mark to market) and requires its clearing members to post collateral for its Guaranty Funds in order to manage its risk as a clearing house and meet CFTC Regulation 39.11. The adequacy of CME's default resources are stress tested on a daily basis.

Margin and Variation Requirements

6.1.2 CME manages its counterparty and market risk by margining each clearing member's contracts on a daily and intra-day basis according to the Risk Management Procedures. Risk is further mitigated through CME's payment to and collection from clearing members of variation margin determined through the variation settlement process.

6.1.3 CME's Standard Portfolio Analysis of Risk system ("**CME SPAN**") is a sophisticated methodology that calculates performance bond requirements by analyzing the "what-ifs" of virtually any market scenario. It is used to calculate a clearing member's "Margin Requirement." CME SPAN simulates the effects of changing market conditions and uses tailored options pricing models to determine a portfolio's overall risk. CME SPAN constructs scenarios of price and

volatility changes to estimate the potential loss arising if an entire portfolio must be closed out over a one-day time horizon. The resulting Margin Requirement is designed to cover this potential loss at a 99% confidence level.

6.1.4 The Margin Requirement forms part of the collateral required by CME in respect of each contract. It is calculated in a different way (net or gross basis) in respect of each type of account (e.g., House Account, Non-Segregated Client Account or Segregated Client Account).

6.1.5 CME calculates the "Variation Requirement" for contracts at least twice daily. The Variation Requirement consists of a mark-to-market revaluation of contracts based on current market prices. CME uses the Margin Requirement and the Variation Requirement to calculate the "Net Settlement Amount" for the settlement cycle.

Guaranty Fund

6.1.6 CME maintains three Guaranty Funds, which are an important element of the financial safeguards for the protection of CME and its clearing members. The three Guaranty Funds are an IRS Guaranty Fund for IRS products, a CDS Guaranty Fund for CDS products and a Base Guaranty Fund for all other products including futures and options on futures. CME will maintain the Guaranty Funds in accordance with the CME Rules and the CME Clearing House Manual of Operations ("**Clearing House Manual**").

6.1.7 As of December 31, 2012, the financial safeguards packages, which include the relevant Guaranty Funds, for the various product groupings were:

	Base Financial Safeguards package
CME Contribution	US$100,000,000
Guaranty Fund Contributions	US$2,899,000,000
Assessment Powers	US$7,974,000,000
Aggregate base financial safeguards	US$10,973,000,000

	IRS Financial Safeguards package
CME Contribution	US$150,000,000
Guaranty Fund Contributions	US$1,125,000,000
Minimum Total Assets Available for Default	US$1,275,000,000

	CDS Financial Safeguards package
CME Contribution	US$50,000,000
Guaranty Fund Contributions	US$771,000,000
Minimum Total Assets Available for Default	US$821,000,000

6.1.8 In the event that a Guaranty Fund is depleted in the course of handling a clearing member default, CME currently has an assessment power against non-defaulting clearing members for 275% of the original Guaranty Fund contribution of the clearing members with respect to that Guaranty Fund.

Eligible Collateral

6.1.9 Clearing members are required to make their Guaranty Fund contributions and Margin deposits in Eligible Collateral. Collateral may be in the form of cash or U.S. Treasury bills, strips, notes or bonds, government agencies or certain IEF2 funds in the case of the Guaranty Funds. A broader range of collateral is acceptable for initial margin/performance bond requirements. These collateral options include: gold, certain foreign sovereign debt, select mortgage backed securities, certain corporate bonds and select stocks from the S&P 500. Differing types of collateral are subject to different haircuts which are liquidity, market and credit risk. More information on the eligible collateral may be found on http://www.cmegroup.com/clearing/financial-and-collateral-management/index.html.

6.1.10 Appropriate haircuts will be applied to cash only when it is utilized to meet CME requirements in other currencies. Appropriate haircuts will be applied to all securities and physical collateral utilized to meet CME requirements. FX rates

will be taken into account when setting haircuts for securities, to account for the fact that securities may be lodged in currencies other than the currency of the liability. Haircuts will be based on a minimum of the 99% confidence level over twelve months of one-day moves.

6.1.11 From time to time, CME will decide to add securities as Eligible Collateral (this would generally be on the initiative of the Head of Banking and Settlement or the Head of Risk and Audits and may be the result of requests from clearing members). Proposals to accept new securities as Eligible Collateral will need to be approved by the CME Risk Committee and the Board of Directors. If the proposal is for a completely new type of Eligible Collateral (i.e. a new asset class, such as precious metal), then CME may also be required submit the change with the CFTC for review.

6.1.12 This historical percentile analysis is considered alongside the following other quantitative measures: Extreme Value Theory (EVT), Exponentially Weighted Moving Average (EWMA) and Normal Mixtures.

6.1.13 In addition to using quantitative data from these methodologies, qualitative information is also incorporated into the analysis. An example of qualitative information is a change in market fundamentals pertaining to the collateral that may not yet be reflected in the quantitative information. Additionally, further investigation into the cause of a period of increased volatility may indicate that the indicated level of haircut is not warranted and therefore the haircut may be set at a lower level, but at all times ensuring the 99% confidence level is maintained.

Stress Testing

6.1.14 CME runs a comprehensive suite of risk-based stress testing analysis on a daily basis to inform decisions on margin and Guaranty Fund adequacy, determine the need for additional margin requirements, and for general clearing member monitoring. CME employs three separate stress-testing models to assess potential clearing member exposures across all markets, each of which is currently used by CME:

- Largest Net Debtor Stress Testing;
- Concentration Margin Stress Testing;
- Trend Analysis Stress Testing.

Default Rules

6.1.15 CME's default rules can be found in Chapter 8 (Clearing House and Performance Bonds) of the CME Rulebook.

6.1.16 The CME Rules permit CME to apply any surplus assets available after it has finalized the default management of a defaulter's house account positions to meet any shortfall in relation to the defaulting clearing member's client account positions. CME is not permitted to apply a net sum related to the CME Segregated Client Account of a defaulting clearing member to cover a shortfall in the defaulting clearing member's house account. In that context, client accounts have a priority over house accounts.

6.1.17 CME is able to use the Guaranty Fund (including the contribution from non-defaulting clearing members) to cover shortfalls in relation to a defaulting clearing member's client accounts, house account, or both. For more information on CME's financial safeguards package please refer to Section 6.1 above and the CMEG website at http://www.cmegroup.com/clearing/files/financialsafeguards.pdf.

6.2 The clearing agency has appropriate risk management policies and procedures and internal controls in place.

6.2.1 CME has set up a number of processes and internal management practices to ensure the proper operation of the clearing house. The risk department has a number of internal policies in place which are all considered and approved by the CME Risk Committee.

6.2.2 In addition, CME's clearing procedures contain procedures relating to audits, risk management and the Guaranty Fund. These are available on the CMEG website.

6.2.3 The Risk and Audits Department reports directly to the President of CME, who is a member of the CME Management Team. In addition, the Head of the Risk and Audits Department have dotted line reporting to the relevant CME Risk Committee, and under the DCO Core Principles, all DCOs are required to have chief risk officers. Ongoing monitoring of the Risk and Audits department's policies and procedures are conducted by the Internal Audit Department (which conducts surveillance of the policies and procedures of CME and CMEG business units).

6.2.4 The Risk and Audits Department team staff are required to have sufficient qualifications, skills and experience to perform their roles, and this will obviously depend on the level of the role and the responsibilities undertaken. The specific requirements will be stated in job descriptions and verification of the necessary skills will form part of the interview and selection process. There is no formal written requirement regarding the skills or experience of members of the CME Risk Committee, although it is to clearing members' advantage to nominate a representative with sufficient ability, qualifications and aptitude.

6.3 Without limiting the generality of the foregoing, the clearing agency's services or functions are designed to achieve the following objectives:

1. Where the clearing agency acts as a central counterparty, it rigorously controls the risks it assumes.

6.3.1 CME acts as a CCP and it rigorously controls the risk it assumes. This is achieved by having an experienced, dedicated risk management team. The risk management policies and procedures, put in place to ensure consistency and transparency, are approved by the CME Risk Committee, the Board of Directors and self-certified with the CFTC.

6.3.2 As described in Section 6.1 above, CME has in place financial safeguards to ensure the integrity of the marketplace and the contracts it clears. The activities of CME are designed and focused on ensuring that it maintains best practices and fulfills its role as a financial market utility.

2. The clearing agency minimizes principal risk by linking securities transfers to funds transfers in a way that achieves delivery versus payment.

6.3.3 CME minimizes principal risk by waiting for confirmation of the movement of cash (or securities) from clearing members before it releases the corresponding securities (or cash).

3. Final settlement occurs no later than the end of the settlement day. Intraday or real-time finality is provided where necessary to reduce risks.

6.3.4 As stated in the Clearing House Manual, CME operates two settlement cycles each day and may require the clearing member to transfer Collateral to it or make payment to the clearing member at the end of each settlement cycle in satisfaction of a Net Settlement Amount. However, for certain Transactions, the clearing house may, in practice, only require the clearing member to transfer Collateral or make payment to the clearing member at the end of one settlement cycle each day.

6.3.5 The Variation Requirement consists of a periodic mark-to-market or revaluation of contracts and the determination of any final settlement amounts. The Variation Requirement also takes account of other amounts payable under the contracts relating to an Account such as premiums. Under volatile market conditions, the clearing house will conduct additional Variation Requirement calculations.

6.3.6 To calculate the intra-day Variation Requirement, CME uses current market prices and applies them to the position data submitted by clearing members prior to the relevant time set out on the CMEG website on that Business Day. For the end-of-day Variation Requirement, CME uses final settlement prices and applies them to the position data submitted by clearing members prior to the relevant time set out on the CMEG website.

6.3.7 CME uses the Margin Requirement and the Variation Requirement to calculate the Net Settlement Amount for the settlement cycle. The Net Settlement Amount for each clearing member is reported to the clearing member at the end of each settlement cycle.

4. Where the clearing agency extends intraday credit to participants, including a clearing agency that operates net settlement systems, it institutes risk controls that, at a minimum, ensure timely settlement in the event that the participant with the largest payment obligation is unable to settle.

6.3.8 In order to ensure that CME has adequate liquidity each day for required payments and settlements, it invests in rolling overnight repurchase agreements, which provides CME with a daily pool of liquidity from which to manage outgoing payments. This policy means that CME only re-invests any cash which is not required to manage liquidity.

5. Assets used to settle the ultimate payment obligations arising from securities transactions carry little or no credit or liquidity risk. If central bank money is not used, steps are to be taken to protect participants in settlement services from potential losses and liquidity pressures arising from the failure of the cash settlement agent whose assets are used for that purpose.

6.3.9 Where the Net Settlement Amount is payable to CME, it shall be provided in the form of Eligible Cash. The clearing member may subsequently substitute part or all of such Collateral with an amount of Eligible Securities which is of an equivalent value as at the date of the substitution.

6.3.10 All of CME's acceptable collateral is of very high quality and is very liquid. However, in order to account for potential credit or liquidity risk, haircuts from current market value are applied when recognizing the value of Eligible Collateral. According to internal CME policy, haircuts will be based on a minimum of the 99% confidence level over 12 months of one-day moves. The haircuts are established and reviewed based on volatility using several value-at-risk (VaR) methodologies and historical observations for varying periods of time and confidence intervals. In addition to using the quantitative data from these methodologies, qualitative information is also incorporated into the analysis.

6. If the clearing agency establishes links to settle cross-border trades, it designs and operates such links to reduce effectively the risks associated with cross-border settlements.

6.3.11 CME does not have any such links. Were it to establish one or more in the future, it would focus on ensuring that the legal structure and general risk management of the linkage or linkages was such as to reduce residual risks to a minimum.

6.4 The clearing agency engaging in activities not related to settlement services carries on such activities in a manner that prevents the spillover of risk to the clearing agency that might affect its financial viability or negatively impact any of the participants in the settlement service.

6.4.1 CME is a DCM in addition to a clearing house. However, the CFTC oversight of CME mitigates the risk of the activities of the DCM from affecting the financial viability of the clearing house by having separate financial resources requirements for DCOs and DCMs. Thus, the CME DCM and DCO must separately have sufficient assets to meet their respective financial resources requirements.

7. Systems and Technology

7.1 For its settlement services systems, the clearing agency:

(a) develops and maintains,

(i) reasonable business continuity and disaster recovery plans,

(ii) an adequate system of internal control,

(iii) adequate information technology general controls, including controls relating to information systems operations, information security, change management, problem management, network support, and system software support;

7.1.1 To retain its registration as a DCO, CME must meet the CFTC Regulation 39.18 – *System safeguards* ("**CFTC Regulation 39.18**"). This regulation sets out certain requirements around testing and recovery time for a DCO's systems.

7.1.2 CFTC Regulation 39.18 requires that all DCOs have a program of risk analysis in relation to their operations and automated systems to identify and minimize sources of operational risk. This program must address information security, business continuity/disaster recover planning, capacity and performance planning, systems development/quality assurance and physical security/environmental controls. The required recovery time after an interruption is no later than the next business day following the day on which the disruption occurred. All DCOs are obligated to perform regular, periodic and objective testing of their automated systems and Business Continuity Plan ("**BCP**")/disaster recovery capabilities. Further, DCOs must ensure that their BCP/disaster recovery plans are coordinated with their clearing members to enable effective resumption of daily processing, clearing and settlement following a disruption.

7.1.3 The core systems standards and procedures that underpin performance and resilience are those established and reviewed by CMEG. CMEG's internal audit function will draw on IT audit experts from an external auditor.

7.1.4 The CME Clearing IT Department includes a dedicated Quality Assurance Team responsible for manual and automated testing of all clearing systems. The team provides test coverage for each of the systems described above. It has developed a large suite of regression test cases that cover all existing functionality and continues to add new test cases to cover new functionality added to the various systems. It executes various types of tests, including testing

individual systems in isolation as well as end-to-end integration tests that exercise the functions of the clearing systems.

7.1.5 In addition, the CME Clearing IT Department includes a dedicated performance and reliability testing team responsible for executing tests that stress the clearing systems with large numbers of transactions to ensure that the systems are sized to support at least twice the last known transaction volume peak. Additional hardware will be added as necessary to meet increasing transaction volumes. The Quality Assurance Team also executes tests that simulate various types of system failure and ensures that these scenarios are handled predictably and can be recovered with no impact on data integrity.

7.1.6 CME has defined business-critical IT systems with appropriate redundancy, including immediate recovery time objectives for core components and up to four hours recovery for certain ancillary systems. In practice, the business could withstand a system outage of up to eight hours. The CME Operations, IT and Client Support Team are responsible for overall monitoring of the operation of the CME IT systems. Monitoring includes system performance, availability, and integrity of the relevant systems.

7.1.7 CME has implemented disaster recovery plans in the event of a failure of their systems. While these plans are designed to ensure that business operations can continue in the event of a wide range of disaster situations, IT failure is at their core.

Facilities

7.1.8 CMEG maintains data centres at three facilities in the Chicago area. One data centre facility houses the production electronic trading infrastructure and the disaster recovery clearing servers for both front-end and back-end clearing. Another data centre facility houses the disaster recovery electronic trading infrastructure and production back-end clearing infrastructure and the production front-end clearing infrastructure.

7.1.9 The data centre and the network equipment at the locations are operated and maintained by a number of departments within CMEG's Information Technology Division. Data centre access is restricted to a core group of staff.

Recovery Procedures

(1) All critical applications are tested at minimum twice per year:

(2) Clearing: The recovery time objectives for CMEG's clearing applications are four hours or less.

(3) Electronic Trading: The recovery time objectives for CMEG's electronic trading platform are four hours or less if there is a disruption in the data centre where CME Globex's production facilities are housed. There will be no recovery time needed if the disruption occurs in the data centre where the CME Globex production facilities are not housed. In that case, the CME Globex markets shall remain open.

(4) All Other Business Processes: The recovery time objectives for recovering all other business processes shall be determined as part of the Business Impact Analysis (BIA) process and shall be incorporated into the Resumption and Recovery component of the BCP.

7.1.10 CMEG currently has extensive monitoring on hardware, applications and software using OVO monitoring software as central repository for anomalies and alert notification to prompt a failover to backup or automatic failover for minimal disruption to business and customers. Alerts are recorded and appropriate escalation and recovery is addressed through the Technology Operations Command Center ("**TOCC**"), proficient in manual and scripted intervention and escalation. The TOCC team is the central point for crisis management of all technology issues and recordation in addition to follow up for incident reviews (lessons learned) from customer impacting events.

(b) on a reasonably frequent basis, and in any event, at least annually, and in a manner that is consistent with prudent business practice,

(i) makes reasonable current and future capacity estimates,

7.1.11 All automated systems employed by CME meet the International Organization of Securities Commissions (IOSCO) Principles for the Oversight of Screen-Based Trading Systems issued in 1990, as supplemented in October 2000, including those involving physical security, environmental controls, network management, capacity, and systems testing.

7.1.12 The CME clearing system has been configured initially to handle a level of transactions per day that provides significant headroom above the level currently handled by CME. The type of product cleared has no impact on system capacity. CME believes this is a suitable and prudent capacity for initial activity, with considerable excess capacity, and will be kept under periodic review.

7.1.13 As noted in paragraph 7.1.5 in response to (a) above, the CME Clearing IT Department includes a dedicated performance and reliability testing team responsible for executing tests that stress the clearing systems with large numbers of transactions to ensure that the systems are sized to support at least twice the last known transaction volume peak.

(ii) conducts capacity stress tests to determine the ability of those systems to process transactions in an accurate, timely and efficient manner,

7.1.14 As stated under (b)(i) above, CME will keep capacity under periodic review and will at least annually conduct capacity stress tests to ensure systems are able to process transactions in an accurate, timely and efficient manner.

(iii) tests its business continuity and disaster recovery plans; and

7.1.15 CMEG tests the full capabilities of its Disaster Recovery Clearing systems at least twice a year. CME is included in disaster recovery planning and testing.

7.1.16 In the first part of the year CMEG does not test with clearing members. For the second test of the year, CMEG carries out a full test of its Disaster Recovery systems with its clearing members (the Futures Industry Association's futures industry disaster recovery test).

7.1.17 In addition, CMEG tests the BCP with participation from all CMEG business units.

(c) promptly notifies the regulator of any material systems failures.

7.1.18 Pursuant to CFTC Regulation 39.17 – *Rule enforcement*, it is the duty of the DCO to notify the CFTC of certain event-specific issues including: any hardware or software malfunction, cyber security incident, or targeted threat that materially impairs, or creates a significant likelihood of material impairment, of automated system operation reliability, security or capacity. All DCOs must also notify the CFTC in situations where they activate their BCP.

7.2 The clearing agency annually engages a qualified party to conduct an independent systems review and prepare a report in accordance with established audit standards regarding its compliance with section 7.1(a).

Internal Audit Department

7.2.1 The Internal Audit Department has established independent assurance functions that report functionally to the audit committees of their respective boards of directors. The functions are established with reporting lines that are independent of management and governed by terms duly approved by their audit committees and staffed with qualified and credentialed audit personnel.

Clearing, Technology and Related Processes

7.2.2 CME has implemented formal business processes with a system of internal controls to operate, manage and control CME.

Independent Systems Review

7.2.3 The Internal Audit Department performs periodic risk assessments of CME business processes and system of internal controls. The scope of this risk assessment includes processes managed and operated internally by CME as well as processes performed by CMEG. This risk assessment is used to prepare a schedule of internal audits that are approved by, monitored and reported to the CMEG Audit Committee (chaired by independent non-executive directors). This schedule of internal audits includes coverage of Clearing and Technology services. The Internal Audit Department conducts independent audits of CME Clearing and Technology processes and prepares reports in accordance with established audit standards and provides the reports to CMEG Management, which uses them to draw independent conclusions about the relevance of results to CME.

7.2.4 The audits performed by the Internal Audit Department provide reasonable assurance that processes included in the system of internal controls are designed and operating effectively. Among other areas, these audits examine the integrity, completeness and timeliness of processing as well as the design and operating effectiveness of technology

processes. Technology processes audited include among others: Access Controls, Business Continuity Management, Change Management, Database Management, Disaster Recovery Planning, Information Security, Network Management, Systems Configuration, Systems Development, Technology Operations and Quality Assurance.

7.2.5 Beginning in 2012, CMEG engaged an independent external firm, McGladrey LLP ("**McGladrey**"), to perform a Service Organization Control 1 ("**SOC 1**") over CME Globex Trading, CME ClearPort and CME Clearing Services. The SOC 1 includes testing related to:

- Application Development and Change Management;
- Trade Clearing Processing;
- Logical Access;
- Deliveries;
- Physical Access;
- Exchange Fee System;
- IT Scheduling, Monitoring and Backups;
- Report Generation;
- Globex Trade Processing;
- Audit Trail Gateway; and
- CME ClearPort.

7.2.6 In addition, McGladrey performed a Service Organization Control 2 ("**SOC 2**") relevant to Security and Availability over CME Co-Location Services Systems. The Security principle refers to the protection of the system from unauthorized access, both logical and physical. The Availability principle refers to the accessibility to the system, products, or services as advertised or committed by contract, service-level, or other agreements. Each of these principles has criteria defined by the American Institute of Certified Public Accountants (AICPA) for which adequate controls must be in place. Criteria are categorized into four broad domains, including Policies, Communications, Procedures and Monitoring. The scope of the SOC 2 includes the Customer Support Portal, Enterprise Database, Geoffrey Access Control System, and GLink Routers.

8. Financial Viability and Reporting

8.1 The clearing agency has sufficient financial resources for the proper performance of its functions and to meet its responsibilities and allocates sufficient financial and staff resources to carry out its functions as a clearing agency in a manner that is consistent with any regulatory requirements.

Financial Resources

8.1.1 Under CFTC Regulation 39.11 – *Financial resources requirements* ("**CFTC Regulation 39.11**"), a DCO must hold financial resources sufficient to:

(a) cover its exposures with a high degree of confidence and enable it to perform its functions in compliance with the DCO core principles; and

(b) cover potential business losses that are not related to clearing members' defaults, so that the DCO can continue as an ongoing concern.

8.1.2 CME has adequate financial and staff resources to carry on its activities in full compliance with its regulatory requirements and with best practices of clearing houses. CFTC Regulation 39.11 requires CME to meet its financial obligations "notwithstanding a default by the clearing member creating the largest financial exposure" and to enable CME to cover its "operating costs for a period of at least one year, calculated on a rolling basis." CME is obligated to update its estimate of twelve month operating costs on a monthly basis and provide the CFTC with a report which includes the amount of its financial resources, the value of each financial resource available and the manner by which CME meets the liquidity requirements.

8.1.3 CME demonstrates its compliance with the financial resources requirements for DCOs by submitting quarterly financial resources reports to the CFTC pursuant to CFTC Regulation 39.11(f). CME submitted its most recent DCO Quarterly Financial Resources Report to the CFTC on January 25, 2013. Based on the most recent DCO Quarterly Financial Resources Report, CME meets all financial resources requirements imposed by the CFTC under CFTC Regulation 39.11.

Staff Resources

8.1.4 CME participates in a group-wide performance management program on a semi-annual basis to assess the calibre of its talent base and skill set. This performance planning tool aims to capture data and feedback related to individual performance, objectives of the role within CME and to identify any additional training/learning that may be required to ensure the job holder can develop and fully perform his or her role with the capabilities required. All CMEG employees participate in this program.

8.1.5 CME also participates in a headcount planning and approval workflow to allow the business to make business justification for additional headcount to support recruitment. In addition, CME participates in an annual budget planning process whereby additional resources are requested and approved. This is driven by the President of CME. CME has grown from 123 employees in May 2012 to 160 employees in June 2012 with a current authorized headcount of 182 employees. The June 2012 headcount can be broken down by employee as follows: Financial (16 employees), Risk (34 employees), Operations & Systems (64 employees), Administrative (8 employees), Clearing Solutions (18 employees) and Executive (20 employees).

9. Operational Reliability

9.1 The clearing agency has procedures and processes to ensure the provision of accurate and reliable settlement services to participants.

9.1.1 CME regularly performs two daily settlement cycles, the end-of-day settlement cycle (the "**RTH**" cycle), and the intra-day settlement cycle (the "**ITD**" cycle). In addition to these regularly scheduled settlement cycles, CME retains the right to run additional settlement cycles as market conditions warrant.

9.1.2 CME currently lists for trading many products that settle in foreign currency denominations. This means, for example, that futures mark-to-market and performance bond requirements are calculated by CME in Japanese yen for the Euro Yen futures product. Additionally, CME accepts as performance bond collateral many different asset types that are denominated in foreign currencies. Examples of foreign denominated performance bond collateral include Canadian Treasury bills and bonds and Japanese yen cash.

9.1.3 When CME runs a settlement cycle, different settlement methods are employed to appropriately take into account the specialized programs that CME supports, as well as the multi-currency character of the performance bond requirements, settlement variation (futures mark-to-market and option premium pass-through), and performance bond collateral utilized in the settlement process. In running any settlement cycle, CME normally:

- calculates clearing firm performance bond excess/deficit amounts, and calls for additional margin collateral in the form of U.S. dollar cash; and
- calculates clearing firm settlement variation per settlement currency.

9.1.4 However, in running any settlement cycle, CME has the flexibility to:

- calculate settlement variation in all settlement currencies, or only for some settlement currencies;
- change the settlement method employed for a settlement currency;
- establish rules and thresholds applicable to specific attributes of a settlement cycle. For example, CME may re-define the threshold under which ITD settlement variation amounts are "not banked" (i.e., the absolute value of settlement variations under a specified amount that are not sent by CME to settlement banks for processing); and
- coordinate settlement variation and performance bond requirement calculations with other clearing organizations.

9.1.5 Current CME practice is to release excess U.S. dollar cash or call for additional performance bond collateral in U.S. dollar cash at each of the ITD and RTH settlement cycles. CME also normally processes only U.S. dollar settlement

variation and performance bond margin at the ITD settlement cycle, and processes U.S. dollar and foreign-denominated settlement variation and USD performance bond margin at the RTH settlement cycle.

10. Protection of Assets

10.1 The clearing agency has established accounting practices, internal controls, and safekeeping and segregation procedures to protect the assets that are held by the clearing agency.

Accounting Practices

10.1.1 All clearing deposits are included in the overall financial reporting of CME and are reviewed by management and the independent members of the Board of Directors on a monthly basis.

10.1.2 All financial information of CMEG, including all of its subsidiary companies, is also consolidated and reported in the 10Q and 10K filings submitted to the SEC.

Internal controls

10.1.3 The Internal Audit Charter, approved by the Audit Committee of the Board of Directors, sets forth the responsibilities of the department and grants the authority to carry out those responsibilities.

10.1.4 Execution of the Internal Audit Department's responsibilities begins with the Annual Risk Based Planning Process ("**Risk Planning Process**"). Working closely with CME management, this process entails preparation of a risk universe, assessing the universe, prioritizing and publishing the planning results, and finalizing and resourcing the plan.

10.1.5 Once the audit plan has been developed based on the Risk Planning Process, the plan is assigned resources and budgeted hours are finalized. The reviews that result from the Risk Planning Process are staffed with qualified Internal Audit professionals.

10.1.6 The standard Internal Audit report provides an overall summary and conclusion for each of CME's reviews. This product is delivered to CME's clients, including CMEG management, to communicate results and provide recommendations for improvement.

Safekeeping and segregation

10.1.7 All DCOs, including CME, maintain separate accounts for each clearing member: (i) a customer account for clearing the trades of the clearing member's customers, and (ii) a house account for clearing the trades of the clearing member itself or of any affiliates or other third parties whose accounts are classified as proprietary. CME is subject to segregation requirements for funds it holds with respect to the customer account. CME, as required by CFTC rules, will hold customer funds deposited by or accruing to its clearing members on a commingled, or omnibus, basis in segregated deposit accounts at a bank or trust company. Consistent with CFTC requirements, the deposit account would bear a name indicating that it is a segregated account for the benefit of futures customers and CME would obtain segregation acknowledgement letters from the custodians carrying the accounts.

10.1.8 Please note that the CFTC has issued new regulations regarding the treatment of cleared swap customer collateral which requires all DCOs to hold cleared swap customer collateral pursuant to the requirements of the Complete Legal Segregation Model ("**Segregation Model**") as of November 8, 2012. This will result in accounts for each cleared swap customer that are legally segregated but operationally commingled. CME will comply with the Segregation Model in a timely manner. For more information, please see the CFTC's final rule on *Protection of Cleared Swaps Customer Contracts and Collateral: Conforming Amendments to the Commodity Broker Bankruptcy Provisions.* Collateral for futures customers will continue to be held pursuant to the futures or omnibus model, unless otherwise required by future CFTC regulations.

10.1.9 The financial institution (i.e., the bank or trust company) holding customer funds in deposit accounts for the clearing member or CME would hold the funds in segregated deposit accounts. As explained above, the CEA makes it unlawful for any person receiving customer funds from an FCM for deposit in a segregated account to hold, dispose of, or use those funds as belonging to the depositing FCM or to any person other than the depositing FCM's customers. This statutory provision is intended to protect customer segregated funds in the event of the failure of any custodian holding such funds.

10.1.10 As a DCO, CME may not apply excess funds in a clearing member's customer account to meet the clearing member's obligations to CME in the house account. However, CME may apply excess funds in the house account to meet the clearing member's obligations in the customer account.

11. Outsourcing

11.1 Where the clearing agency has outsourced any of its key functions, it has appropriate and formal arrangements and processes in place that permit it to meet its obligations and that are in accordance with industry best practices. The outsourcing arrangement provides regulatory authorities with access to all data, information, and systems maintained by the third party service provider required for the purposes of regulatory oversight of the agency.

11.1.1 CME does not outsource any of its key functions.

12. Information Sharing and Regulatory Cooperation

12.1 For regulatory purposes, the clearing agency cooperates by sharing information or otherwise with the Commission and its staff, self-regulatory organizations, exchanges, quotation and trade reporting systems, alternative trading systems, other clearing agencies, investor protection funds, and other appropriate regulatory bodies.

12.1.1 CFTC Regulation 39.22 – *Information sharing* requires all registered DCOs to enter into, and abide by, appropriate and applicable domestic and international information-sharing agreements. Further, it states that DCOs should use the information obtained through such agreements in carrying out their risk management programs. CME coordinates the International Information Sharing Memorandum of Understanding and Agreement ("**Information Sharing MOU**"), to which it is a signatory. CME has been a signatory to this agreement since 1996 and has historically shared information with its fellow market operators and CCPs pursuant to its terms. In its role as a CCP and an exchange, CME regularly shares information with its home regulator and pertinent international regulators with which it has regulatory standing as an overseas clearing house or exchange. Additionally, all of CME's clearing members authorize CME and CMEG, via the Clearing Member Application, to disclose and release information to regulators and all signatories to the Information Sharing MOU.

PART IV SUBMISSIONS

1. Submissions

1.1 CME submits that it meets the criteria set out for recognition as a clearing agency, all as outlined in Appendix A to Staff Notice 24-702. CME further submits that it would be appropriate and would not be contrary to the public interest for the OSC to exempt CME from recognition due to the fact that it is already subject to appropriate regulatory oversight by the SEC and CFTC in the U.S.

PART V OTHER MATTERS

1. Enclosures

1.1 In support of this application, we are enclosing the following:

(a) a verification statement from CME confirming our authority to prepare and file this application and confirming the truth of the facts contained herein at Appendix "A"; and

(b) a draft form of order.

1.2 We note that we previously delivered a cheque to the OSC on March 25, 2013 in the amount of CDN$5,250.00 in respect of fees payable for this application.

2. Consent to Publication

2.1 CME consents to the publication of this application for public comment in the OSC Bulletin.

If you have any questions or require anything further, please do not hesitate to contact us.

Yours very truly,

Terence W. Doherty

TWD/mm

cc: *Christopher Bowen, CME Group Inc.*

Sean Downey, CME Group Inc.

Kenneth Ottenbreit, Stikeman Elliott

Appendix "A"

Verification Certificate

To: Ontario Securities Commission

Dear Sirs/Mesdames:

Re: Application by Chicago Mercantile Exchange Inc. ("CME")

CME hereby authorizes the making and filing of the attached application by Stikeman Elliott and confirms the truth of the facts contained therein as they relate to CME.

DATED May 6, 2013.

Chicago Mercantile Exchange Inc.

By: _____

Name: Christopher Bowen

Title: Managing Director, Chief Regulatory Counsel

APPENDIX A

[DRAFT ONLY]

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

AND

IN THE MATTER OF
CHICAGO MERCANTILE EXCHANGE INC. (CME)

ORDER
(Section 147 of the Act)

WHEREAS CME has filed an application dated May 6, 2013 (**Application**) with the Ontario Securities Commission (**Commission**) pursuant to section 147 of the Act requesting an order exempting CME from the requirement to be recognized as a clearing agency under subsection 21.2(0.1) of the Act (**Order**);

AND WHEREAS the Commission issued an interim order with effective date June 19, 2012 (**Interim Order**) exempting CME from the requirement to be recognized as a clearing agency under subsection 21.2(0.1) of the Act, until the earlier of (i) June 30, 2013 and (ii) the effective date of a subsequent order exempting CME from the requirement to be recognized as a clearing agency under section 147 of the Act;

AND WHEREAS the Commission issued an order (**Variation Order**) dated August 31, 2012 varying the Interim Order by extending the deadline for CME to file a full application for the subsequent order from August 31, 2012 to September 10, 2012;

AND WHEREAS the Interim Order, as varied and restated by the Variation Order, will be replaced by this order and therefore be automatically revoked upon issuance of this order;

AND WHEREAS CME has represented to the Commission that:

1.1 CME is a corporation organized under the laws of the State of Delaware in the United States (**U.S.**) and is a wholly owned subsidiary of CME Group Inc. (**CMEG**), a publicly traded for-profit corporation organized under the laws of Delaware and listed for trading on the NASDAQ National Market. CMEG is the ultimate parent company of: (i) CME; (ii) Board of Trade of the City of Chicago, Inc.; (iii) Commodity Exchange, Inc. (**COMEX**); (iv) New York Mercantile Exchange, Inc.; and (v) Board of Trade of Kansas City, Missouri, Inc. (collectively, the **CMEG Exchanges**).

1.2 CMEG receives a majority of its revenue from clearing and transaction fees, which include electronic trading fees, surcharges for privately-negotiated transactions and other volume-related charges for contracts executed through CMEG's trading venues.

1.3 CME is a designated contract market (**DCM**) and a derivatives clearing organization (**DCO**) within the meanings of those terms under the U.S. Commodity Exchange Act (**CEA**). CME is subject to regulatory supervision by the U.S. Commodity Futures Trading Commission (**CFTC**), a U.S. federal regulatory agency, and is obligated under the CEA to give the CFTC access to all records unless prohibited by law or such records are subject to solicitor-client privilege. The CFTC reviews, assesses and enforces a DCO's adherence to the CEA and the regulations thereunder on an ongoing basis, including but not limited to, the DCM and DCO core principles relating to compliance with the core principles, financial resources, participant and product eligibility, risk management, settlement procedures, treatment of funds, default rules and procedures, rule enforcement and system safeguards.

1.4 CME is deemed to be registered with the U.S. Securities and Exchange Commission (**SEC**) as a securities clearing agency, effective July 16, 2011, in accordance with certain provisions under Subsection 763(b) of the *Dodd Frank Wall Street Reform and Consumer Protection Act* (**Dodd Frank Act**), and is therefore also subject to limited regulatory supervision by the SEC in connection with its offering of clearing services for single stock and narrow-based security index products.

1.5 On July 18, 2012, CME was designated by the Financial Stability Oversight Council as a systemically important financial market utility under Title VIII of the Dodd Frank Act.

1.6 On November 21, 2012, CME became registered with the CFTC as a swap data repository (**SDR**) to provide SDR services supporting credit default swaps (**CDS**), interest rate swaps (**IRS**), commodities and foreign exchange (**FX**) asset classes through its CME Repository Service.

1.7 CME provides clearing and settlement services for exchange-traded futures and options on futures, as well as for over-the-counter (**OTC**) derivatives transactions. CME clears OTC derivatives in the following asset classes: agricultural commodities; credit; energy; environmental commodities; equities; FX; interest rates; and metals. The exchange-traded futures and options on futures products cleared by CME include, but are not limited to, the following: short-term interest rates (Eurodollar, Euribor, U.S. Treasury Bills); government bonds (U.S. Treasury Bonds and Notes); medium and long-term swap rates (U.S. Dollar), narrow-based equity indices (U.S.-related S&P, NASDAQ and DJIA indices and Nikkei indices); commodity index swaps (gold, crude oil, UBS commodity index); and a broad range of commodities (*e.g.*, gold, silver, platinum, palladium, copper, steel and uranium, cocoa, coffee, corn, sugar, wheat, oats, soybeans, live cattle and butter). In addition, CME clears freight futures, forwards and options, iron futures, options and swap futures, fertilizer swaps and electricity swap futures. The full list of products cleared by CME is available on its website at www.cmegroup.com.

1.8 CME is the DCO for, and provides clearing services to, each of the CMEG Exchanges. CME also serves as the central counterparty for all trades executed on the CMEG Exchanges and all OTC trades submitted for clearing.

1.9 CME's clearing members consist of banks, securities houses/investment banks, commodity brokers and traders and, to a very limited extent, industrial companies.

1.10 CME does not have any offices or maintain other physical installations in Ontario or any other Canadian province or territory, except for a CMEG marketing office in Calgary, Alberta whose activities are limited to marketing and development of energy products.

1.11 CME currently has three clearing members that have a head office or principal place of business in Ontario and that are OTC derivatives clearing members, with privileges to clear IRS OTC derivatives products on their own behalf, and on behalf of their branches and affiliated companies. In addition, one of such clearing members is a COMEX clearing member (**COMEX Exchange Clearing Member**) that currently has privileges to clear COMEX exchange-listed futures and options on futures on its own behalf, and on behalf of its branches and affiliated companies. It became a COMEX Exchange Clearing Member on December 1, 1997.

1.12 CME Clearport is a web-based graphical user interface owned, maintained and operated by CME to view and submit bilaterally negotiated transactions (e.g., block trades, OTC swap futures substituted for exchange-traded futures and OTC derivatives) into CME for clearing and settlement services by clearing firms and their customers in the U.S. CME ClearPort is not a clearing system as it does not clear trades or serve as a central counterparty for trades submitted via CME ClearPort to CME in the U.S.

1.13 CME proposes to offer direct clearing access in Ontario to certain Canadian financial institutions (within the meaning of such term in subsection 1.1(3) of National Instrument 14-101 *Definitions*) that have a head office or principal place of business in Ontario as clearing members with privileges to clear OTC derivative products (**OTC Derivatives Clearing Members**) and exchange-traded futures and options on futures products (described in paragraph 1.7 above) on one or more of the CMEG Exchanges (**CMEG Exchange Clearing Members**) (together with the clearing members referred to in paragraph 1.11 above, the **Ontario Clearing Members**).

1.14 CME currently carries on business in Ontario pursuant to the Interim Order, as varied and restated by the Variation Order.

1.15 CME submits that it does not pose a significant risk to the Ontario capital markets and is subject to an appropriate regulatory and oversight regime in a foreign jurisdiction.

1.16 CME maintains clearing member criteria that all applicants must satisfy before their applications are accepted, including fitness criteria, review of corporate constating documentation, financial standards, operational standards, appropriate registration qualifications with applicable statutory regulatory authorities, and CME applies a due diligence process to ensure that all applicants meet the required criteria.

1.17 CME utilizes processes to minimize systemic risk, which processes include operational and financial criteria for all clearing members, margining and financial protections, the maintenance of a clearing/guarantee fund, sound information systems, comprehensive internal controls, ongoing monitoring of clearing members, and appropriate oversight by the Board of Directors.

AND WHEREAS CME has agreed to the respective terms and conditions as set out in Schedule "B" to this order;

AND WHEREAS based on the Application and the representations CME has made to the Commission, the Commission has determined that CME satisfies the criteria set out in Schedule "A" and that the granting of the order exempting CME from the requirement to be recognized as a clearing agency under subsection 21.2(0.1) of the Act would not be prejudicial to the public interest;

AND WHEREAS the Commission will monitor developments in international and domestic capital markets and CME's activities on an ongoing basis to determine whether it is appropriate that CME continue to be exempted from the requirement to be recognized as a clearing agency and, if so, whether it is appropriate that it continue to be exempted subject to the terms and conditions in this order;

IT IS HEREBY ORDERED by the Commission that, pursuant to section 147 of the Act, CME is exempt from recognition as a clearing agency under subsection 21.2(0.1) of the Act;

PROVIDED THAT CME complies with the terms and conditions attached hereto as Schedule "B", as applicable.

DATED ●, 2013.

SCHEDULE "A"

Criteria for Exemption from Recognition by the Ontario Securities Commission as a Clearing Agency pursuant to section 21.1(0.1) of the *Securities Act* (Ontario)

PART 1. Governance

1.1 The governance structure and governance arrangements of the clearing agency ensures:

(a) effective oversight of the clearing agency;

(b) the clearing agency's activities are in keeping with its public interest mandate;

(c) fair, meaningful and diverse representation on the governing body (Board) and any committees of the Board, including a reasonable proportion of independent directors;

(d) a proper balance among the interests of the owners and the different entities seeking access (participants) to the clearing, settlement and depository services and facilities (settlement services) of the clearing agency;

(e) the clearing agency has policies and procedures to appropriately identify and manage conflicts of interest;

(f) each director or officer of the clearing agency, and each person or company that owns or controls, directly or indirectly, more than 10 percent of the clearing agency is a fit and proper person; and

(g) there are appropriate qualifications, limitation of liability and indemnity provisions for directors and officers of the clearing agency.

PART 2. Fees

2.1 All fees imposed by the clearing agency are equitably allocated. The fees do not have the effect of creating unreasonable barriers to access.

2.2 The process for setting fees is fair and appropriate, and the fee model is transparent.

PART 3. Access

3.1 The clearing agency has appropriate written standards for access to its services.

3.2 The access standards and the process for obtaining, limiting and denying access are fair and transparent. A clearing agency keeps records of

(a) each grant of access including, for each participant, the reasons for granting such access, and

(b) each denial or limitation of access, including the reasons for denying or limiting access to an applicant.

PART 4. Rules and Rulemaking

4.1 The clearing agency's rules are designed to govern all aspects of the settlement services offered by the clearing agency, and

(a) are not inconsistent with securities legislation,

(b) do not permit unreasonable discrimination among participants, and

(c) do not impose any burden on competition that is not necessary or appropriate.

4.2 The clearing agency's rules and the process for adopting new rules or amending existing rules should be transparent to participants and the general public.

4.3 The clearing agency monitors participant activities to ensure compliance with the rules.

4.4 The rules set out appropriate sanctions in the event of non-compliance by participants.

PART 5. Due Process

5.1 For any decision made by the clearing agency that affects an applicant or a participant, including a decision in relation to access, the clearing agency ensures that:

(a) an applicant or a participant is given an opportunity to be heard or make representations; and

(b) the clearing agency keeps a record of, gives reasons for, and provides for appeals or reviews of, its decisions.

PART 6. Risk Management

6.1 The clearing agency's settlement services are designed to minimize systemic risk.

6.2 The clearing agency has appropriate risk management policies and procedures and internal controls in place.

6.3 Without limiting the generality of the foregoing, the clearing agency's services or functions are designed to achieve the following objectives:

1. Where the clearing agency acts as a central counterparty, it rigorously controls the risks it assumes.

2. The clearing agency minimizes principal risk by linking securities transfers to funds transfers in a way that achieves delivery versus payment.

3. Final settlement occurs no later than the end of the settlement day. Intraday or real-time finality is provided where necessary to reduce risks.

4. Where the clearing agency extends intraday credit to participants, including a clearing agency that operates net settlement systems, it institutes risk controls that, at a minimum, ensure timely settlement in the event that the participant with the largest payment obligation is unable to settle.

5. Assets used to settle the ultimate payment obligations arising from securities transactions carry little or no credit or liquidity risk. If central bank money is not used, steps are to be taken to protect participants in settlement services from potential losses and liquidity pressures arising from the failure of the cash settlement agent whose assets are used for that purpose.

6. If the clearing agency establishes links to settle cross-border trades, it designs and operates such links to reduce effectively the risks associated with cross-border settlements.

6.4 The clearing agency engaging in activities not related to settlement services carries on such activities in a manner that prevents the spillover of risk to the clearing agency that might affect its financial viability or negatively impact any of the participants in the settlement service.

PART 7. Systems and Technology

7.1 For its settlement services systems, the clearing agency:

(a) develops and maintains,

(i) reasonable business continuity and disaster recovery plans,

(ii) an adequate system of internal control,

(iii) adequate information technology general controls, including controls relating to information systems operations, information security, change management, problem management, network support, and system software support;

(b) on a reasonably frequent basis, and in any event, at least annually, and in a manner that is consistent with prudent business practice,

(i) makes reasonable current and future capacity estimates,

(ii) conducts capacity stress tests to determine the ability of those systems to process transactions in an accurate, timely and efficient manner,

(iii) tests its business continuity and disaster recovery plans; and

(c) promptly notifies the regulator of any material systems failures.

7.2 The clearing agency annually engages a qualified party to conduct an independent systems review and prepare a report in accordance with established audit standards regarding its compliance with section 7.1(a).

PART 8. Financial Viability and Reporting

8.1 The clearing agency has sufficient financial resources for the proper performance of its functions and to meet its responsibilities and allocates sufficient financial and staff resources to carry out its functions as a clearing agency in a manner that is consistent with any regulatory requirements.

PART 9. Operational Reliability

9.1 The clearing agency has procedures and processes to ensure the provision of accurate and reliable settlement services to participants.

PART 10. Protection of Assets

10.1 The clearing agency has established accounting practices, internal controls, and safekeeping and segregation procedures to protect the assets that are held by the clearing agency.

PART 11. Outsourcing

11.1 Where the clearing agency has outsourced any of its key functions, it has appropriate and formal arrangements and processes in place that permit it to meet its obligations and that are in accordance with industry best practices. The outsourcing arrangement provides regulatory authorities with access to all data, information, and systems maintained by the third party service provider required for the purposes of regulatory oversight of the agency.

PART 12. Information Sharing and Regulatory Cooperation

12.1 For regulatory purposes, the clearing agency cooperates by sharing information or otherwise with the Commission and its staff, self-regulatory organizations, exchanges, quotation and trade reporting systems, alternative trading systems, other clearing agencies, investor protection funds, and other appropriate regulatory bodies.

SCHEDULE "B"

Terms and Conditions

DEFINITIONS

For the purposes of this Schedule "B":

"Clearing Member" means a clearing member as defined under CME's rules;

"client clearing" means the ability of a Clearing Member to clear transactions at CME for and on behalf of a client who is not a Clearing Member;

"rule" means any provision or other requirement in CME's rulebook, operating procedures or manuals, user guides, or similar documents governing rights and obligations between CME and the Clearing Members or among the Clearing Members;

"U.S. Authorities" means the CFTC, SEC and any other authority in the United States that has or may have jurisdiction over CME.

Unless the context otherwise requires, other terms used in this Schedule "B" have the meanings ascribed to them in Ontario securities law (including terms defined elsewhere in this exemption order).

REGULATION OF CME

1. CME will maintain its registration as a DCO and as a deemed-registered securities clearing agency in the United States and will continue to be subject to the regulatory oversight of the U.S. Authorities.

2. CME will continue to comply with its ongoing regulatory requirements as a DCO and as a deemed-registered securities clearing agency in the United States.

3. CME will continue to meet the criteria for exemption from recognition as a clearing agency as set out in Schedule "A".

GOVERNANCE

4. CME will continue to promote a corporate governance structure that minimizes the potential for any conflicts of interest between CMEG (and its affiliates) and CME that could adversely affect the clearance and settlement of trades in contracts or the effectiveness of CME's risk management policies, controls, and standards.

FILING REQUIREMENTS

Filings with U.S. Authorities

5. CME will promptly provide staff of the Commission the following information to the extent that it is required to file such information with the U.S. Authorities:

   (a) the annual audited financial statements of CME;

   (b) details of any material legal proceeding instituted against it;

   (c) notification that CME has failed to comply with an undisputed obligation to pay money or deliver property to a Clearing Member for a period of thirty days after receiving notice from the Clearing Member of CME's past due obligation;

   (d) notification that CME has instituted a petition for a judgment of bankruptcy or insolvency or similar relief, or to wind up or liquidate CME or has a proceeding for any such petition instituted against it;

   (e) the appointment of a receiver or the making of any voluntary arrangement with creditors; and

   (f) material changes to its bylaws and rules.

Prompt Notice

6. CME will promptly notify staff of the Commission of any of the following:

   (a) any material change to its business or operations or the information as provided in the Application;

   (b) any material problem with the clearance and settlement of transactions in contracts cleared by CME that could materially affect the financial viability of CME;

   (c) any event of default by an Ontario Clearing Member;

   (d) any material system failure of a clearing service utilized by an Ontario Clearing Member;

   (e) any material change or proposed material change in CME's status as a DCO or deemed securities clearing agency or to the regulatory oversight by the U.S. Authorities; and

   (f) the admission of any new Ontario Clearing Member or any other Ontario resident that has entered into a direct connection arrangement with CME for facilitating the Ontario resident's direct access to one or more CME systems.

Quarterly Reporting

7. CME will maintain the following updated information and submit such information to the Commission in a manner and form acceptable to the Commission on a quarterly basis (by the end of the month following the end of the calendar quarter), and at any time promptly upon the request of staff of the Commission:

   (a) a current list of all Ontario Clearing Members;

   (b) a list of all Ontario Clearing Members against whom disciplinary action has been taken in the quarter by CME or, to the best of CME's knowledge, by the U.S. Authorities with respect to such Ontario Clearing Members' clearing activities on CME;

   (c) a list of all referrals for disciplinary action by CME relating to Ontario Clearing Members;

   (d) a list of all Ontario applicants who have been denied clearing member status in CME in the quarter;

   (e) the average daily volume of exchange-traded products and the notional value of trades of OTC derivatives cleared by asset class during the quarter, for each Ontario Clearing Member;

   (f) the percentage of total volume of exchange-traded products along with the notional value of trades of OTC derivatives cleared by asset class during the quarter for all Clearing Members that represents the total volume and value of trades cleared during the quarter for each Ontario Clearing Member;

   (g) the aggregate total margin amount required by CME ending on the last trading day during the quarter for each Ontario Clearing Member;

   (h) the portion of the total margin required by CME ending on the last trading day of the quarter for all Clearing Members that represents the total margin required during the quarter for each Ontario Clearing Member;

   (i) the Guaranty Fund contribution for each Ontario Clearing Member on the last trading day during the quarter for each Ontario Clearing Member and the proportion of the total Guaranty Fund contributions;

   (j) a list of Ontario Clearing Members who have received permission or approval by CME during the quarter to:

      1) perform client clearing at CME; or

      2) clear at CME new classes of products that the Ontario Clearing Member was not otherwise permitted or approved to clear under the terms of its CME membership;

   (k) a summary of risk management analysis related to the adequacy of required margin and the level of the guaranty funds, including but not limited to stress testing and back testing results;

(l) based on information available to CME, the aggregate notional value and volume of transactions cleared during the quarter by Clearing Members for and on behalf of clients that are Ontario residents; and, where CME has subsequently verified the accuracy of such aggregate client clearing information for any previous quarters, any summary that describes the results of such verification including any reconciliation of the information previously reported to the Commission;

(m) to the extent CME becomes aware of the offering of client clearing to Ontario residents by a Clearing Member, the identity of such Clearing Member and its jurisdiction of incorporation (including that of its ultimate parent) that provides such client clearing services to Ontario residents including, where known,

1) the name of each of the Ontario residents receiving such services; and

2) the value and volume of transactions cleared by asset class during the quarter for and on behalf of each Ontario resident;

(n) any other information in relation to an OTC derivative cleared by CME for Ontario Clearing Members as may be required by the Commission from time to time in order to carry out the Commission's mandate; and

(o) a copy of the bylaws and rules showing all cumulative changes to the bylaws and rules made during the quarter.

INFORMATION SHARING

8. CME will provide such information as may be requested from time to time by, and otherwise cooperate with, the Commission or its staff, subject to any applicable privacy or other laws (including solicitor-client privilege) governing the sharing of information and the protection of personal information.

9. Unless otherwise prohibited under applicable law, CME will share information relating to regulatory and enforcement matters and otherwise cooperate with other recognized and exempt clearing agencies on such matters, as appropriate.

SUBMISSION TO JURISDICTION AND AGENT FOR SERVICE

10. With respect to a proceeding brought by the Commission arising out of, related to, concerning or in any other manner connected with the Commission's regulation and oversight of CME's activities in Ontario, CME shall submit to the non-exclusive jurisdiction of (i) the courts and administrative tribunals of Ontario and (ii) an administrative proceeding in Ontario.

11. For greater certainty, CME shall file with the Commission a valid and binding appointment of an agent for service in Ontario upon whom the Commission may serve a notice, pleading, subpoena, summons or other process in any action, investigation or administrative, criminal, quasi-criminal, penal or other proceeding arising out of or relating to or concerning the Commission's regulation and oversight of CME's activities in Ontario.

13.3.3 Variation Order – Variation of the Recognition Order of The Canadian Depository for Securities Limited (CDS) and CDS Clearing and Depository Services Inc. (CDS CLEARING)

VARIATION OF THE RECOGNITION ORDER OF
THE CANADIAN DEPOSITORY FOR SECURITIES LIMITED (CDS) AND
CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS CLEARING)

VARIATION ORDER

The Ontario Securities Commission (Commission) issued an order on May 1, 2013 (Order) varying the current recognition order of CDS and CDS Clearing to extend the time period to February 28, 2014 for CDS and CDS Clearing to obtain a report from an independent qualified party concerning a review of CDS Clearing's rules and arrangements. Commission staff have been discussing with CDS Clearing the scope and process for the review of CDS Clearing's rules and arrangements and staff will be discussing with CDS Clearing a more detailed timeline for the review and will monitor the process of the review within the overall timetable for the review and completion of the report.

The Order is published in Chapter 2 of this Bulletin.

Chapter 25

Other Information

25.1 Approvals

25.1.1 Taylor Asset Management Inc. – s. 213(3)(b) of the LTCA

Headnote

Clause 213(3)(b) of the Loan and Trust Corporations Act – application by manager, with no prior track record acting as trustee, for approval to act as trustee of pooled funds and future pooled funds to be managed by the applicant and offered pursuant to a prospectus exemption.

Statutes Cited

Loan and Trust Corporations Act, R.S.O. 1990, c. L.25, as am., s. 213(3)(b).

April 19, 2013

Wildeboer Dellelce LLP
365 Bay Street, Suite 800
Toronto, ON M5H 2V1

Attention: Geoffrey Cher

Dear Sirs/Medames:

Re: Taylor Asset Management Inc. (the "Applicant")

Application pursuant to clause 213(3)(b) of the *Loan and Trust Corporations Act* (Ontario) for approval to act as trustee

Application No. 2013/0109

Further to your application dated February 15, 2013 (the "Application") filed on behalf of the Applicant, and based on the facts set out in the Application and the representation by the Applicant that the assets of Taylor Partners Fund and any other future mutual fund trusts that the Applicant may establish and manage from time to time, will be held in the custody of a trust company incorporated and licensed or registered under the laws of Canada or a jurisdiction, or a bank listed in Schedule I, II or III of the *Bank Act* (Canada), or an affiliate of such bank or trust company, the Ontario Securities Commission (the "Commission") makes the following order:

Pursuant to the authority conferred on the Commission in clause 213(3)(b) of the *Loan and Trust Corporations Act* (Ontario), the Commission approves the proposal that the Applicant act as trustee of Taylor Partners Fund and any other future mutual fund trusts which may be established and managed by the Applicant from time to time, the securities of which will be offered pursuant to prospectus exemptions.

Yours truly,

Edward P. Kerwin

Sarah B. Kavanagh

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