

June 1, 2008

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**

**TRANSITION RULE NO. 1  
MADE PURSUANT TO BY-LAW 13.1 OF THE CORPORATION**

**1.1 MARKETPLACE MEMBER REGULATION**

**1.1.1 General**

This Transition Rule No. 1.1 is made to adopt as Rules of the Corporation those rules and policies of Market Regulation Services Inc. ("RS") that are in force and effect immediately prior to June 1, 2008 that are identified in Transition Rule No. 1.1.2 ("UMIR") to be applicable to those persons defined as "Regulated Persons" under UMIR ("UMIR Regulated Persons") who are subject to the jurisdiction of the Corporation as Regulated Persons of the Corporation on and after such date, subject to (i) incidental conforming changes made to ensure consistency, and (ii) such further amendments to UMIR as may be made from time to time. The intention of this Transition Rule No. 1.1 is that marketplace regulation of UMIR Regulated Persons formerly conducted by RS is to continue by the Corporation in accordance with UMIR, unaffected and in the same manner and to the same degree in respect of such persons as Regulated Persons of the Corporation. Such UMIR Regulated Persons who obtain membership in the Corporation, execute and deliver regulation service or other related agreements, or are the subject of the terms of orders or approvals of the applicable securities regulatory authorities, or some combination thereof, are Regulated Persons of the Corporation and are subject to the jurisdiction of the Corporation, which is authorized to continue their regulation, subject to the terms of the Rules of the Corporation and amendments thereto, and such orders and approvals effective as of June 1, 2008 or to be lawfully made or imposed after such date.

**1.1.2 Adoption of UMIR**

The UMIR rules and policies set out in Schedule A.1 to this Transition Rule No. 1 are hereby made and adopted as Rules of the Corporation, subject to the terms and conditions provided for in this Transition Rule No. 1.1.

### **1.1.3 Marketplace Directives and Guidance**

All Market Integrity Notices issued by RS to UMIR Regulated Persons in force and effect immediately prior to June 1, 2008, whether of general or specific application, are hereby adopted by the Corporation and shall be applicable to UMIR Regulated Persons who are subject to the jurisdiction of the Corporation, all with the intent that the Rules adopted under pursuant to Transition Rule No. 1.1.2 shall be interpreted and applied in accordance with such Market Integrity Notices to the extent they relate to a corresponding provision of UMIR.

### **1.1.4 Continuing Jurisdiction of RS**

Nothing in this Transition Rule No. 1.1 affects the jurisdiction of RS to regulate UMIR Regulated Persons for conduct or activities prior to June 1, 2008 to the extent that such UMIR Regulated Persons are not subject to regulation by the Corporation, by virtue of refusal to attorn to the jurisdiction of the Corporation, dissolution of the UMIR Regulated Person, any transitional or permanent defect in the jurisdiction of the Corporation in respect of the UMIR Regulated Person, or otherwise.

### **1.1.5 Interpretation**

In the case of any inconsistency between the provisions of this Transition Rule No. 1.1 and the provisions of the rules and policies set out in Schedule A.1, the terms of Transition Rule No. 1.1 shall prevail. In the event of any inconsistency between the provisions of this Transition Rule No. 1.1 and the terms of any regulation services agreement or undertaking made between the Corporation and a Regulated Person, the terms of such agreement or undertaking shall prevail. The interpretation and application of UMIR, including but not limited to the defined terms used therein, shall be separate from and made without reference to the Dealer Member Rules, as defined in Transition Rule No. 1.2.1, except to the extent that UMIR expressly provides otherwise. The interpretation of the Rules of the Corporation (including this Transition Rule No. 1.1) as determined by the Corporation shall be final and conclusive, subject to the provisions of UMIR Rule 11.3 and applicable legislation.

## **1.2 DEALER MEMBER REGULATION**

### **1.2.1 General**

This Transition Rule No. 1.2 is made to adopt as Rules of the Corporation those regulatory By-laws, Regulations, Forms and Policies of the Investment Dealers Association of Canada ("IDA") that are in force and effect immediately prior to June 1, 2008 that are identified in Transition Rule No. 1.2.2 (the "Dealer Member Rules") to be applicable to those persons defined as "Members" and "Approved Persons" under the Dealer Member Rules and other persons subject to the jurisdiction of the IDA (collectively, the "IDA Regulated Persons") who are subject to the jurisdiction of the Corporation as Regulated Persons of the Corporation on and after such date, subject to (i) incidental conforming changes to ensure consistency, and (ii) such further amendments to the Dealer Member Rules as may be made from time to time. The intention of this Transition Rule No. 1.2 is that dealer regulation of IDA Regulated Persons formerly conducted by the IDA is to continue by the Corporation in accordance with the Dealer Member Rules, unaffected and in the same manner and to the same degree in respect of such persons as Regulated Persons of the Corporation. Such IDA Regulated Persons who obtain membership in the Corporation, or are the subject of the terms of orders or approvals of the applicable securities regulatory authorities, or some combination thereof, are Regulated Persons of the Corporation and are subject to the jurisdiction of the Corporation, which is authorized to continue their regulation, subject to the terms of the Rules of the Corporation and amendments thereto, and such orders and approvals effective as of June 1, 2008 or to be lawfully made or imposed after such date.

### **1.2.2 Adoption of Dealer Member Rules**

The Dealer Member Rules set out in Schedule B.1 to this Transition Rule No. 1 are hereby made and adopted as Rules of the Corporation, subject to the terms and conditions provided for in this Transition Rule No. 1.2.

### **1.2.3 Dealer Member Directives and Guidance**

All regulatory notices, bulletins, directives and guidance provided by the IDA to IDA Regulated Persons in force and effect immediately prior to June 1, 2008, whether of general or specific

application, and including without limitation those forms of notices, bulletins, directives and guidance listed on Schedule B.2 to this Transition Rule No. 1.2, are hereby adopted by the Corporation and shall be applicable to IDA Regulated Persons who are subject to the jurisdiction of the Corporation, all with the intent that the Rules adopted pursuant to Transition Rule No. 1.2.2 shall be interpreted and applied in accordance with such notices, bulletins, directives and guidance to the extent they relate to a corresponding Dealer Member Rule.

#### **1.2.4 Continuing Jurisdiction of the IDA**

Nothing in this Transition Rule No. 1.2 affects the jurisdiction of the IDA to regulate IDA Regulated Persons for conduct or activities prior to June 1, 2008 to the extent that such IDA Regulated Persons are not subject to regulation by the Corporation, by virtue of refusal to attorn to the jurisdiction of the Corporation, dissolution of the IDA Regulated Person, any transitional or permanent defect in the jurisdiction of the Corporation in respect of the IDA Regulated Person, or otherwise.

#### **1.2.5 Interpretation**

In the case of any inconsistency between the provisions of this Transition Rule No. 1.2 and the provisions of the rules and requirements set out in Schedule B.1, the terms of this Transition Rule No. 1.2 shall prevail. In the event of any inconsistency between the provisions of this Transition Rule No. 1.2 and the terms of any undertaking made between the Corporation and a Regulated Person, the terms of such undertaking shall prevail. The interpretation and application of the Dealer Member Rules, including but not limited to the defined terms used therein, shall be separate from and made without reference to UMIR, except to the extent the Dealer Member Rules expressly provide otherwise. The interpretation of the Rules of the Corporation (including this Transition Rule No. 1.2) as determined by the Corporation shall be final and conclusive, subject to the provisions of Dealer Member Rule 33 and applicable legislation.

### **1.3 HEARING COMMITTEES AND PANELS**

#### **1.3.1 General**

This Transition Rule No. 1.3 is made to provide for the manner and basis on which Hearing Committees and Hearing Panels of the Corporation shall be constituted. The intention of this Transition Rule No. 1.3 is that such Hearing Committees and Hearing Panels shall be constituted in the same manner with respect to any Enforcement Proceeding or Review Proceeding, as defined in Schedule C.1 to this Transition Rule No. 1, involving any Regulated Persons of the Corporation, whether such Regulated Persons be subject to UMIR or the Dealer Member Rules.

#### **1.3.2 Hearing Committee and Hearing Panel Rules**

The rules set out in Schedule C.1 to this Transition Rule No. 1 are hereby made as Rules of the Corporation, subject to the terms and conditions provided for in Transition Rule No. 1.

**SCHEDULE A.1**  
**TO TRANSITION RULE NO. 1**

[See attached UMIR](#)

**SCHEDULE B.1  
TO TRANSITION RULE NO. 1**

[See attached Dealer Member Rules](#)

**SCHEDULE B.2**  
**TO TRANSITION RULE NO. 1**

[Bulletins](#)

[Member Regulation Notices](#)

[Compliance Interpretation Bulletins](#)

[Financial Compliance Notices](#)

**SCHEDULE C.1  
TO TRANSITION RULE NO. 1**

**HEARING COMMITTEES AND HEARING PANELS RULE**

**Part A. DEFINITIONS**

**1.1.** In this Rule:

**"Dealer Member Rules"** means the Dealer Member Rules adopted pursuant to Transition Rule No. 1.2.2 of the Corporation.

**"Enforcement Proceeding"** means a disciplinary hearing, a settlement hearing, and an expedited hearing under UMIR and Rule 20.30, Rule 20.33, Rule 20.34, Rule 20.42, and Rule 20.43 of the Dealer Member Rules, and includes any procedural applications or motions in relation to these proceedings.

**"Industry Member"** means an individual who is:

- (a) a current or former director, officer, partner or employee of a Member or Access Person;
- (b) a current or former director, officer, partner or employee of a former Member or former Access Person; or
- (c) any other individual that is suitable and qualified, in accordance with the factors enumerated in Subsection 1.3(1) of this Rule.

**"National Hearing Coordinator"** means the secretary of the Corporation or such other officer, employee or agent of the Corporation designated in writing from time to time by the secretary to perform the functions assigned to the National Hearing Coordinator under the Rules of the Corporation or by the Board of Directors.

**"Practice and Procedure"** means the practice and procedure governing a hearing pursuant to UMIR or the Dealer Member Rules, as applicable.

**"Public Member"** means an individual who is a current or retired member of the Law Society of any Canadian province and is in good standing at the Law Society, except in Quebec, where the individual shall be a current or retired member of the Law Society of Quebec who is in good standing.

**"Review Proceeding"** means an approval application review proceeding, an early warning level 2 review proceeding, and an expedited hearing review under Rule 20.19, Rule 20.29, and Rule 20.47 of the Dealer Member Rules, and includes any procedural applications or motions in relation to these proceedings.

**"UMIR"** means the provisions of the Universal Market Integrity Rules adopted pursuant to Transition Rule No. 1.1.2 of the Corporation.

Terms used in this Hearing Committees and Hearing Panels Rule which are not defined herein shall have the same meanings as used or defined in whichever of the Dealer Member Rules or UMIR is applicable to such hearing or proceeding. In the case of any inconsistency between terms used or defined in this Hearing Committees and Hearing Panels Rule and terms used or defined in the Dealer Member Rules or

UMIR, the meanings of such terms as used or defined in this Hearing Committees and Hearing Panels Rule shall prevail.

**PART B. HEARING COMMITTEES**

**1.2. Nomination of Candidates to the Hearing Committee**

- (1) From time to time, each District Council shall nominate individuals resident in the District to be members of the hearing committee of the respective District.
- (2) From time to time, each Marketplace Member shall nominate individuals resident in the District to be members of the hearing committee in their respective District provided the Marketplace Member is in that District:
  - (a) in the case of an Exchange or QTRS, recognized or exempt from recognition as an Exchange or QTRS in accordance with applicable securities legislation; and
  - (b) in the case of an ATS, registered in accordance with applicable securities legislation.
- (3) To the extent practicable, one-third of the individuals nominated by a District Council or a Marketplace Member in each District shall be Public Members.
- (4) To the extent practicable, two-thirds of the individuals nominated by a District Council or a Marketplace Member in each District shall be Industry Members.

**1.3. Appointment of Public and Industry Members to the Hearing Committee**

- (1) The Corporate Governance Committee shall review the suitability and qualifications of individuals nominated for membership on the hearing committee and in such review shall consider:
  - (a) general knowledge of business practices and securities legislation,
  - (b) experience,
  - (c) regulatory background,
  - (d) availability for hearings,
  - (e) reputation in the securities industry,
  - (f) ability to conduct hearings in either French or English, and
  - (g) Districts in which the individual would be entitled to serve.
- (2) The Corporate Governance Committee shall appoint to the hearing committee of each District those individuals that the Corporate Governance Committee considers to be suitable and qualified.
- (3) To the extent practicable, the Corporate Governance Committee shall ensure that one-third of the members of the hearing committee of each District shall be Public Members.

- (4) To the extent practicable, the Corporate Governance Committee shall ensure that two-thirds of the members of the hearing committee of each District shall be Industry Members
- (5) No individual shall be eligible to be appointed as a Public Member or be permitted to continue to serve his or her term of appointment as a Public Member if she or he represents any parties to hearings under the Rules of the Corporation during the course of his or her appointment to a hearing committee.
- (6) Any hearing required by the present rules in Quebec shall be held in Quebec and the parties may present in French both verbally and in writing.

#### **1.4. Appointment of Hearing Committee Chairs**

- (1) For each District, the Corporate Governance Committee shall appoint a Public Member to serve as the chair of that District's hearing committee.
- (2) The chair of the hearing committee shall play an advisory role with respect to any legal, administrative or procedural issues or any issues regarding selection of Hearing Panel members raised by the National Hearing Coordinator.

#### **1.5. Appointment to and removal from Hearing Committees**

- (1) Each individual appointed to the hearing committee shall serve for a term of three years from the date of their appointment and each individual shall be eligible to be re-appointed to successive terms.
- (2) If a member of the hearing committee is serving on a Hearing Panel at the expiration of their three-year term and the individual is not re-appointed to the hearing committee, the term of that individual shall be automatically extended until the completion of the proceeding then before the Hearing Panel.
- (3) The Corporate Governance Committee may remove from the hearing committee prior to the expiration of their term any individual who:
  - (a) ceases to be a resident of the District in respect of which the individual was appointed to serve on the hearing committee;
  - (b) is precluded from acting in such capacity by reason of any statutory requirement applicable to the jurisdiction in respect of which the individual was appointed to serve on the hearing committee;
  - (c) in the opinion of the Corporate Governance Committee, will have a reasonable apprehension of bias in respect of matters that may come before a Hearing Panel; or
  - (d) has otherwise ceased to be suitable and qualified to serve on the hearing committee.
- (4) If an individual is removed from the hearing committee in accordance with subsection (3), the individual shall cease to qualify on any Hearing Panel on which the individual is serving at the time of their removal from the hearing committee.

## **PART C. HEARING PANELS**

### **1.6. Selection of Hearing Panel**

- (1) Any Enforcement Proceeding or Review Proceeding pursuant to Rules of the Corporation shall be heard by a Hearing Panel selected by the National Hearing Co-ordinator comprised of two Industry Members and one Public Member appointed to the hearing committee of the applicable District subject to subsection (2).
- (2) Hearing committee members may serve on Hearing Panels in other Districts where both chairs of the respective hearing committees consent. Notwithstanding the foregoing sentence or any other provision of the By-laws or Rules, Hearing Panels considering matters that relate to the conduct or activities in the Province of Quebec shall be composed mainly of persons residing in Quebec.
- (3) The National Hearing Coordinator shall not select any individual to be a member of any Hearing Panel with respect to any matter if the member:
  - (a) is an officer, partner, director, employee or an associate of, or is providing services to any person that is a subject of the hearing, order or interim order;
  - (b) has or had such other relationship to the person or matter that is a subject of the hearing, order or interim order as may give rise to a reasonable apprehension of bias;
  - (c) represents any parties to hearings under the Rules of the Corporation during his or her appointment to the hearing committee;
  - (d) is precluded from acting in such capacity by reason of any statutory requirement applicable to the District in which the hearing will be held;
  - (e) is the chair of the Hearing Committee of the District and the National Hearing Coordinator consulted the chair with respect to the selection of the Hearing Panel; or
  - (f) in connection with a hearing, order or interim order in respect of a Marketplace Rule for the purposes of the Rules of the Corporation, is precluded from acting in such capacity by reason of any requirement in the recognition order or registration under the applicable securities legislation of the relevant Marketplace.

### **1.7. Chair of Hearing Panels**

- (1) A Public Member of a hearing committee shall be appointed to serve as the chair of the Hearing Panel.

### **1.8. Provisions for Hearing Panels**

- (1) If a member (including the chair) of a Hearing Panel becomes incapacitated or is otherwise unable to serve on a Hearing Panel for whatever reason, the remaining member or members

of the Hearing Panel may continue to deal with any matter and may make any order or decision that a Hearing Panel may make provided that the Hearing Panel may only continue to deal with any matter with the consent of all parties to the hearing.

- (2) Any order or decision of a Hearing Panel may be made by a majority of the members of the Hearing Panel. In the event that the Hearing Panel is comprised of two members the order or decision shall be unanimous.
- (3) If any member of a Hearing Panel is unable to continue to be a member of the Hearing Panel by reason of participation in a pre-hearing conference as authorized by the Practice and Procedure, the National Hearing Coordinator shall select a replacement for the individual such that the composition of the Hearing Panel shall be as provided in Rule 1.6.

## **PART D. TRANSITIONAL PROVISIONS**

### **1.9. Enforcement Proceedings**

- (1) Any Enforcement Proceeding commenced by the IDA or RS in accordance with their respective rules prior to June 1, 2008:
  - (a) in respect of which a hearing panel has been appointed, shall be continued by the Corporation on behalf of the IDA or RS, as applicable, and shall proceed in accordance with the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA or RS, as applicable, in effect and applicable to such Enforcement Proceeding at the time it was commenced; and
  - (b) in respect of which a hearing panel has not been appointed, shall be continued by the Corporation on behalf of the IDA or RS, as applicable, and shall proceed in accordance with the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA or RS, as applicable, in effect and applicable to such Enforcement Proceeding at the time it was commenced, except that despite any provision of the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA or RS, as applicable, in effect and applicable to such Enforcement Proceeding, this Rule shall apply to the appointment of the hearing panel.
- (2) Any Enforcement Proceeding commenced on or after June 1, 2008 by the Corporation on behalf of the IDA or RS with respect to compliance with the by-laws, decisions, directions, policies, regulations, rules and rulings of the IDA or RS, as applicable, relating to conduct that occurred prior to June 1, 2008 shall be undertaken in accordance with the Practice and Procedure in effect on the date of the commencement of the Enforcement Proceeding notwithstanding that the conduct which is the subject of the Enforcement Proceeding occurred prior to June 1, 2008. However, in any such proceeding the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA or RS, as applicable, in effect and applicable to such conduct at the time it occurred shall apply to the extent that it is not inconsistent with the Practice and Procedure in effect at the time the Enforcement Proceeding is commenced.

### **1.10. Review Proceedings**

- (1) Any Review Proceeding that has been requested prior to June 1, 2008 by the IDA, a Member, an Approved Person, an Applicant, or other person subject to the jurisdiction of the IDA in accordance with the rules of the IDA in effect and applicable at the time of the request:
  - (a) in respect of which a hearing panel has been appointed, shall be continued by the Corporation on behalf of the IDA and shall proceed in accordance with the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA in effect and applicable to such Review Proceeding at the time it was commenced; and
  - (b) in respect of which a hearing panel has not been appointed, shall be continued by the Corporation on behalf of the IDA and shall proceed in accordance with the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA in effect and applicable to such Review Proceeding at the time it was commenced, except that despite any provision of the by-laws, decisions, directions, policies, regulations, rules, rulings and practice and procedure of the IDA in effect and applicable to such Review Proceeding, this Rule shall apply to the appointment of the hearing panel.
- (2) Any Review Proceeding that has been requested on or after June 1, 2008 shall be undertaken in accordance with the Practice and Procedure in effect on the date of the request of the Review Proceeding notwithstanding that the conduct or application which is the subject of the Review Proceeding occurred prior to June 1, 2008.

### **1.11 Continuing Membership of Hearing Committees**

Each individual who on May 31, 2008 was a member of a hearing committee of the IDA or RS shall be automatically deemed to be a member of the hearing committee of the Corporation and the term of each such individual as a member of the hearing committee of the Corporation shall expire on the date that his or her term as a member of the hearing committee of the IDA or RS would have expired.