

Appendix “A” - Blacklined Changes to IDA Rules – District Association Auditors

BY-LAW NO. 16

, MEMBERS' AUDITORS AND FINANCIAL REPORTING

Panel of Members' Auditors 16.1. Each District Council shall select annually a panel of accounting firms. In addition, each District Council may at any time appoint one or more additional firms of accountants to or remove one or more firms of accountants from such panel. Except as otherwise provided by the By-laws and Regulations, each Member shall select from the panel its own auditor and the fees and expenses in respect of each audit or examination shall be paid by the Member concerned.

Filing Requirements

16.2 Members subject to the Association's audit jurisdiction shall:

- (i) File monthly with the Senior Vice-President, Member Regulation a copy of a financial report of the Member as at the end of each fiscal month or at such other date as may be agreed with the Senior Vice-President, Member Regulation. Such monthly financial reports shall contain or be accompanied by such information as may be prescribed by the Senior Vice-President, Member Regulation from time to time.
- (ii) File annually with the Senior Vice-President, Member Regulation, two copies of the Member's audited financial statements, as defined in subsection 16.2(iii), as at the end of the Member's fiscal year or as at such other fixed date as may be agreed upon with the Senior Vice-President, Member Regulation.
- (iii) The Member's financial statements shall be in such form, shall contain such information and shall be supplemented by such additional schedules as the Senior Vice-President, Member Regulation may, from time to time, prescribe. The Member's financial statements shall be filed by the Member's Auditor within seven weeks of the date as of which the statements are required to be prepared, subject to the extension of time, if any, as the Senior Vice President, Member Regulation may, in his or her discretion grant, upon the request in writing of the Member's Auditor.
- ~~(iv)~~ (iv) In calculating the risk adjusted capital of a Member, the financial position of the Member may, with the prior approval of the Senior Vice President, Member Regulation, be consolidated (in a manner as set out below) with that of any related company of a Member provided that:
 - (a) Such related company is subject to all of the By-laws and Regulations of either the Association or the Bourse de Montréal Inc.; and
 - (b) The Member has guaranteed the obligations of such related company and the related company has guaranteed the obligations of the Member (such guarantee to be in a form acceptable to the Senior Vice President, Member Regulation and unlimited in amount).
- (v) The said consolidation permitted shall be carried out in accordance with the following rules or in such other manner as may be acceptable to the Senior Vice President, Member Regulation:
 - (a) Inter-company accounts between the Member and the related company shall be eliminated;
 - (b) Any minority interests in the related company shall be eliminated from the capital calculation; and

- (c) Calculations with respect to the Member and the related company shall be as of the same date.

16.3. Members not subject to the Association's audit jurisdiction shall file annually with the Association one copy of the financial statements and related information, as defined in subsection 16.2(iii), as and when filed by such Member with the Bourse de Montréal Inc. If the Association so requires, such Member shall also establish to the satisfaction of the Association that as of the date of the statements filed with the Bourse de Montréal Inc. the Member's capital was sufficient to meet the requirements of the Bourse de Montréal Inc.

16.4. In addition to the statements under By-law 16.3 each Member referred to in By-law 16.3 shall file annually with the Association through the Member's Auditor, particulars of the name and relationship to the Member of each related company of the Member and such financial statements and reports with respect to the affairs of any such related company of the Member as the Association considers necessary or advisable.

Members' Auditors 16.5 The Member's Auditor shall conduct his or her examination of the accounts of the Member in accordance with generally accepted auditing standards and the scope of his or her procedures shall be sufficiently extensive to permit him or her to express an opinion on the Member's financial statements in the form prescribed in subsection 16.2(iii). Without limiting the generality of the foregoing, the scope of the examination shall, where applicable, include at least the procedures set out in Regulation 300.

16.6. Every Member's Auditor for the purpose of any such examination shall be entitled to free access to all books of account, securities, cash, documents, bank accounts, vouchers, correspondence and records of every description of the Member being examined, and no Member shall withhold, destroy or conceal any information, document or thing reasonably required by the Member's Auditor for the purpose of his examination.

Compliance

16.7. If at any time the District Council is of the opinion that the financial condition or conduct of the business of any Member has required excessive attention from the Senior Vice President, Member Regulation or his or her staff and that it would be in the interests of the Association that the Association be reimbursed by such Member, the District Council shall have the power to impose an assessment against such Member. Any decision of the District Council imposing an assessment shall be in writing and notice thereof shall be given promptly to the Member and the Senior Vice President, Member Regulation.

16.8. The Board of Directors may authorize the Association to enter into in its own name agreements or arrangements with any stock exchange, self-regulatory organization, securities enforcement or regulatory authority or other organization regulating or providing services in connection with securities trading located in Canada or any other country for the exchange of any information (including information obtained by the Association pursuant to the By-laws or Regulations or otherwise in its possession) and for other forms of mutual assistance for market surveillance, investigation, enforcement and other regulatory purposes relating to trading in securities in Canada or elsewhere.

16.9. The Association, its officers, the Senior Vice President, Member Regulation, a District Council, or any other committee of the Association authorized by the Board of Directors may provide to any stock exchange, self-regulatory organization, securities enforcement or regulatory authority or other organization regulating or providing services in connection with securities trading located in Canada or any other country any information obtained by the Association or any of the aforesaid persons or Councils

pursuant to the By-laws or Regulations or otherwise in their possession and may provide other forms of assistance for surveillance, investigation, enforcement and other regulatory purposes relating to trading in securities in Canada or elsewhere.

16.10. Each Member shall be liable for and pay to the Association fees in the amounts prescribed from time to time by the Board of Directors for the failure of the Member, its auditors or any person acting on its behalf, to file any report, form, financial statement or other information required under this By-law 16 within the times prescribed by this By-law 16, the Board of Directors, the Association or the terms of such report, form, financial statement or other information, as the case may be.

BY-LAW NO. 2

MEMBERSHIP

2.6. The Secretary shall notify all Members of the receipt of the application for Membership. Any Member may within fifteen days from the date of the mailing of such notification by the Secretary lodge with the Secretary an objection in writing to the admission of the applicant and in such event the objection shall be forwarded to the applicable District Council with the application for Membership pursuant to By-law 2.8.

2.7. The Secretary shall request the applicant to submit:

- (a) Financial statements of the applicant as of a date not more than 90 days prior to the date of application for Membership (or as of such other date as the Association may require), prepared in accordance with Form 1 and audited by a panel auditor;
- (b) Interim unaudited monthly financial statements, prepared in accordance with Form 1, for the period following the date of the audited financial statement submitted under subparagraph (a) up to the most recent month prior to the date of the Membership application;
- (c) An additional report by the applicant's auditor to the effect that, based on his examination of the affairs of the applicant, the applicant keeps a proper system of books and records;
- (d) Such additional financial information, if any, relating to the applicant as the Association may, in its discretion, request.

2.7A. Notwithstanding the provisions of clause (a) of By-law 2.7, if an applicant is an approved participant of the Bourse de Montréal Inc. such applicant may, in lieu of the financial statements referred to in said clause (a), submit to the Association its latest audited Form 1 together with:

- (i) A copy of the last monthly financial report filed by such applicant with the Bourse de Montréal Inc., and
- (ii) A "comfort" letter from the Bourse de Montréal Inc. relating to the applicant's standing with the Bourse de Montréal Inc. in compliance, disciplinary and regulatory matters and in a form which is satisfactory to the Association. If such applicant wishes to transfer to the Association's audit jurisdiction, the applicant shall submit to the Association audited financial statements as of a date not more than 90 days prior to the date of application for transfer.

2.8. Upon notification of the Members by the Secretary pursuant to By-law 2.6 and the expiration of the fifteen day period referred to therein and upon receipt of the application for Membership from the Secretary, the applicable District Council may;

- (a) At the expiration of a period of six months or such lesser period as the Council may, in any particular case, determine, approve the application, notwithstanding any objection thereto that has been made by any Member;

- (b) Approve the application subject to such terms and conditions as may be considered appropriate by the District Council if, in the opinion of the District Council, such terms and conditions are necessary in order to ensure that the By-laws, Regulations, Rulings and Policies will be complied with by the applicant; and
- (c) Refuse the application if, in the opinion of the District Council, having regard to such factors as it may consider relevant including, without limitation, the past or present conduct, business or condition of the applicant;
 - (i) It is not satisfied that the By-laws, Regulations, Rulings and Policies will be complied with by the applicant;
 - (ii) The applicant is not qualified by reason of integrity, solvency, training or experience; or
 - (iii) Such approval is otherwise not in the public interest.

2.8A. If a District Council proposes to approve an application subject to terms and conditions pursuant to By-law 2.8(b) or to refuse an application pursuant to By-law 2.8(c):

- (a) The applicant shall be provided with a statement of the grounds upon which the District Council proposes to approve the application subject to terms and conditions or to refuse an application, and the particulars of those grounds;
- (b) The applicant shall be provided with a summary of the facts and evidence which are to be considered by the District Council; and
- (c) The District Council shall permit the applicant to appear before it on reasonable notice, and with counsel or other representative, to call evidence and cross-examine witnesses in order to show cause why the application should not be subject to terms and conditions or should not be refused. A hearing held pursuant to this By-law 2.8A shall be open to the public except where the District Council determines that all or any part of the hearing should be held in camera in accordance with the principles set out in By-law 20.20.

2.8B. The applicable District Council shall have the power to vary or remove any such terms and conditions as may have been imposed on an applicant for Membership that may be considered appropriate by the District Council, if such terms and conditions are or are no longer, as the case may be, necessary to ensure that the By-laws, Regulations, Rulings and Policies will be complied with by the applicant. In the event that the District Council proposes to vary terms and conditions in a manner which would be more burdensome to the applicant, the provisions of By-laws 2.8A through 2.8G, inclusive, shall apply in the same manner as if the District Council was exercising its powers thereunder in regard to the applicant.

2.8C. If within 10 days of being notified of a proposal to approve an application subject to terms and conditions or to refuse an application, the applicant fails to request a hearing, the District Council may approve the application subject to the proposed terms and conditions or refuse the application. If the applicant requests a hearing, the District Council may, after permitting the parties to be heard, exercise any of its powers in accordance with By-law 2.8A.

2.8D. For a meeting of a District Council which is to be a hearing pursuant to this By-law 2, the appointment of members of the District Council for the hearing and the establishment of a quorum shall be in accordance with By-law 20.1. No member of a District Council who has participated in a decision to propose the imposition of terms and conditions on an applicant or the refusal of an application shall subsequently participate in a hearing pursuant to By-law 2.8A regarding that application.

2.8E. If, pursuant to the provisions of By-law 2.8A, a District Council approves an application subject to terms and condition or refuses to approve an application, the District Council may order that the

applicant may not apply for removal or variation of terms and conditions or reapply for approval, for such periods as the District Council provides.

2.8F. Any decision of a District Council at a hearing held pursuant to By-law 2.8A shall be in writing and shall contain a concise statement of the reasons for the decision. Notice of a decision shall be delivered to the Secretary who shall then promptly give notice to the applicant. A copy of the decision shall accompany the notice.

2.8G. Any decision of a District Council pursuant to By-law 2.8A to either refuse to approve an application for Membership or to approve an application for Membership with terms and conditions attached, shall only have effect in the District where such District Council has jurisdiction unless and until otherwise ordered by the Board of Directors. In the event of such a decision by the District Council, the Board of Directors shall, upon application of either the Association or the applicant, made within 21 days of receiving notice of the decision of the District Council, review the said decision and either (a) confirm the decision in its application to that District, (b) confirm the decision of the District Council and extend its application and effect to all Districts of the Association, or (c) make such other decision as the Board of Directors considers proper.

The Board of Directors shall not, pursuant to this By-law 2.8G,

- (i) Confirm any decision of a District Council in its application to the District in which such District Council has jurisdiction; or
- (ii) Extend the application and effect of the decision to another District Council of a District; or
- (iii) Make any other decision as the Board of Directors considers proper if the securities commission having jurisdiction in such District directs that such decision shall not be confirmed, extended or made in respect of the District where it has jurisdiction, as the case may be. Any review by the Board of Directors of a decision of a District Council pursuant to this By-law 2.8G shall be conducted in accordance with and subject to the provisions of By-laws 20.41, 20.42 and 20.43 and the Bylaws referred to therein, all of which shall apply mutatis mutandis.

2. 9. If and when the application is approved by the applicable District Council, the Secretary shall compute the amount of the Annual Fee to be paid by the applicant pursuant to By-law 3.2.

2. 10. Subject to the provisions of By-law 2. 11, the Secretary shall submit to the next succeeding meeting of the Board of Directors each application which has been approved by the applicable District Council, together with the amount of the Annual Fee to be paid by the applicant.

2. 11. Subject to the provisions of this By-law 2.11, the Board of Directors shall thereupon consider the application at such meeting at which its decision as to admission of the applicant and the Annual Fee payable by it shall be expressed by resolution passed by the affirmative vote of at least a majority of all of the members of the Board of Directors. The Board of Directors shall have the power to confirm the decision of the District Council, to exercise any of the powers that a District Council may exercise under By-law 2.8 or to make any other decision as the Board of Directors considers proper. Any review, consideration or determination by the Board of Directors in respect of an application for Membership shall be conducted in accordance with and subject to the provisions of By-laws 20.41, 20.42 and 20.43 and the By-laws referred to therein, all of which shall apply mutatis mutandis.

2.12. If and when the application has been approved by the Board of Directors and the applicant has been duly licensed or registered to carry on business as a securities dealer under the applicable law of the province or provinces or territories in which the applicant carries on or proposes to carry on business, and upon payment of the balance of the Entrance Fee and Annual Fee, the applicant shall become and be a Member.

2. 13. Notwithstanding the foregoing, if an applicant qualifies for exemption from payment of the Entrance Fee and if the applicable District Council approves of such exemption and gives its approval to the application for Membership, the applicant shall be admitted to Membership without reference to the Board of Directors for final decision if all other conditions relating to an application for Membership have been duly complied with except such conditions, if any, as such applicable District Council may deem appropriate to be waived under the circumstances of any particular case.

2.14. Notwithstanding the provisions of By-laws 2.6, 2.8, 2.10, 2.11, and 2.12 wherever an applicant for Membership is a related company of a Member which confirms its intention to continue its Membership in the Association, the applicable District Council, after receipt of such financial information as the Senior Vice-President, Member Regulation may require, shall either approve or disapprove the application and notify the Secretary of their decision. The Secretary shall thereupon notify by writing each member of the Board of Directors and the Board of Directors may, in its discretion, forthwith approve the application by instrument in writing signed by a majority of the members thereof.

2.15. The Secretary shall keep a register of the names and business addresses of all Members and of their respective Annual Fees. The Annual Fees of Members shall not be made public by the Association.

2.16. The Secretary shall furnish to the securities commissions of all the provinces of Canada a list of Members and from time to time as changes occur in the Membership shall communicate such changes to such commissions.

BY-LAW NO. 8

RESIGNATIONS, AMALGAMATIONS, ETC.

8.2. A Member which tenders its resignation shall in its letter of resignation state its reasons for resigning and shall file with the Secretary one of:

- (a) A balance sheet of the Member reported upon by the Member's Auditor without qualification as of such date as the Association may require which balance sheet shall indicate that the Member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any; or
- (b) A report from the Member's Auditor without qualification that in his or her opinion the Member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any; or
- (c) If permitted by the applicable District Council a report without qualification from the Bourse de Montréal Inc. that the Member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any;

And a report from the Member's Auditor that clients' free securities are properly segregated and earmarked. If the financial information required by (a), (b) or (c) above is not filed with the letter of resignation the Member shall indicate in the letter of resignation the date by which such financial information shall be filed.

8.3AA. Notwithstanding the provisions of By-law 8.2 and By-law 2, if a Member and a non-Member are amalgamated and the Member wishes the continuing entity to continue as a Member, the Member shall not be required to comply with the provisions of By-law 8.2 and the non-Member shall not be required to comply with the provisions of By-law 2 if both the Member and the non-Member have provided the Association with all such financial information as it may require and the Association is satisfied with such financial information.

8.5. Unless the Board of Directors, in its discretion otherwise declares, a resignation shall take effect as of the close of business (5:00 p.m. head office local time), on the date the Secretary receives from the

Member's Auditor or the Bourse de Montréal Inc. a written statement certifying that, in their opinion, based on the balance sheet and/or reports referred to in By-law 8.2, the Member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any, and if, to the knowledge of the Secretary after due enquiry, the Member is not indebted to the Association and no complaint against the Member or any investigation of the affairs of the Member is pending.

8.6. When a Member signifies in writing its intention to resign, the Secretary shall so advise the Member resigning and all other Members, the Board of Directors, the securities commissions of all of the provinces of Canada, the Bank of Canada, and such other persons or bodies as the Secretary may decide through the issuance of a Bulletin within one week of such notification. Similarly, the same shall occur when the resignation of a Member becomes effective.

BY-LAW NO. 11

DISTRICT COUNCILS AND MEETINGS

11.6. Each District Council shall at its first meeting after the Annual Meeting select, in accordance with By-law 16.1, a panel of Members' Auditors for the ensuing year.

BY-LAW NO. 17

MINIMUM CAPITAL, CONDUCT OF BUSINESS AND INSURANCE

17.1. Every Member shall have and maintain at all times risk adjusted capital greater than zero calculated in accordance with Form 1 and with such requirements as the Board of Directors may from time to time prescribe. If at any time the risk adjusted capital of a Member is, to the knowledge of such Member, less than zero, such Member shall immediately notify the Senior Vice President, Member Regulation.

” 17.10. No Member shall publish or circulate any financial statement unless such statement is accompanied by a report of the Member's Auditor upon such statement.

17.11. Every Member shall obtain from clients and maintain in respect of its own account such minimum margin in such amount and in accordance with such requirements as the Board of Directors may from time to time by Regulation prescribe. Such minimum margin shall be used for calculations pursuant to Form 1.

17.12. No Member shall on less than 20 days' prior notice (i) to the Association, change its name, effect or permit any change in its constitution affecting voting rights, take any steps to dissolve, wind-up, surrender its charter or liquidate or dispose of all or substantially all of its assets, (ii) to the Association, effect or permit any alteration in its capital structure including the allotment, issue, repurchase, redemption, cancellation, subdivision or consolidation of any shares in its capital. In either case, the Member shall not proceed with such action if within such 20-day period it is advised that the matter is to be submitted to the applicable District Council for approval. The applicable District Council may review any matter so submitted to it and either approve or disapprove of the proposed action if it considers that the action may result in the Member being unable to comply with the By-laws and Regulations of the Association.

17.13. Each Member shall from time to time furnish to an officer of the Association such statistical information with respect to such Member's business as, in the opinion of the Board of Directors, may be necessary in the interests of all the Members of the Association provided that no request for such information shall be made of any Member unless approved by the Board of Directors.

17.14. A Member engaged in trading in any securities or commodity futures contracts or options listed on or issued by a recognized stock exchange, commodity futures exchange, clearing or service

corporation, or other listing or issuing organization, as the case may be, in respect of which the By-laws, Regulations or any Rulings do not prescribe specific standards or requirements, shall comply with the provisions of the relevant bylaws and regulations of such stock exchange, commodity futures exchange, clearing or service corporation, or other listing or issuing organization in effect from time to time to the extent not inconsistent with the Bylaws and Regulations. For the purposes of this By-law 17. 14, the Board of Directors shall, from time to time, designate recognized stock exchanges, futures exchanges, clearing or service corporations, or other listing or issuing organizations.

17.15. The Board of Directors may exempt a Member from the requirements of any provision of the By-laws and Regulations where it is satisfied that to do so would not be prejudicial to the interests of the Members, their clients or the public and in granting such exemption the Board of Directors may impose such terms and conditions as are considered necessary.

BY-LAW NO. 21

NO ACTIONS AGAINST THE ASSOCIATION

21.1. No Member and no partner, director or officer of a Member (including in all cases a Member whose rights and privileges have been suspended or terminated and a Member who has been expelled from the Association or whose Membership has been forfeited) and no person who, upon application for approval as a partner, director, officer, sales manager, branch manager, assistant or co-branch manager, registered representative or investment representative, submitted to the jurisdiction of the Association, shall be entitled, subject to the provisions of By-law 33, to commence or carry on any action or other proceedings against the Association or against the Board of Directors, the National Advisory Committee, the Executive Committee, any District Council, any Business Conduct Committee, any District Audit Committee, or any other National, District or other Committee or Council of the Association, or against any member of the staff or officer of the Association or member or officer of any such Board, Committee or Council or against any Member's Auditor, in respect of any penalty imposed or any act or omission done or omitted under the provisions of and in compliance with or intended compliance with the provisions of any By-law, Regulation, Ruling or Policy.

BY-LAW NO. 28

DISCRETIONARY FUND

28.8. The Association's auditor shall, in each year, examine the accounts of the Discretionary Fund, and shall make a report thereon to the Board of Directors in such form as the Board of Directors may from time to time prescribe.

BY-LAW NO. 30

EARLY WARNING SYSTEM

30.3. If a Member is designated in early warning level 1 then, notwithstanding the provisions of any By-law (other than By-law 30.5), Regulation, Ruling or Policy of the Association, the following provisions shall apply:

- (i) the chief executive officer and chief financial officer of the Member shall immediately deliver to the Vice-President, Financial Compliance a letter containing the following:
 - (1) advice of the fact that any of the circumstances in By-law 30.2 are applicable;
 - (2) an outline of the problems associated with the circumstances referred to in (1);

- (3) an outline of the proposal of the Member to rectify the problems identified; and
- (4) an acknowledgement that the Member is in early warning category and that the restrictions contained in By-law 30.3(iv) apply;

a copy of which letter shall be provided to the Member's auditor and to the Canadian Investor Protection Fund;

- (ii) the Vice-President, Financial Compliance shall immediately designate the Member as being in an early warning category level 1 and shall deliver to the chief executive officer and chief financial officer a letter containing the following:
 - (1) advice that the Member is designated as being in early warning category level 1;
 - (2) a request that the Member file its next monthly financial report required pursuant to By-law 16.2 no later than 15 business days or, in the discretion of the Vice-President, Financial Compliance if he considers it to be practicable, such earlier time following the end of the relevant month;
 - (3) a request that the Member respond to the letter as required under paragraph (iii) and that such response, together with the notice received pursuant to paragraph (i), will be forwarded to the Canadian Investor Protection Fund and may be forwarded to any securities commission having jurisdiction over the Member;
 - (4) advice that the restrictions referred to in paragraph (iv) shall apply to the Member;
 - (5) such other information as the Vice-President, Financial Compliance shall consider relevant;
- (iii) the chief executive officer and the chief financial officer of the Member shall respond by letter signed by them both within five business days of receipt of the letter referred to in paragraph (ii), with a copy to be sent to the Member's auditor, containing the information and acknowledgement required pursuant to paragraphs (1)(2), (3) and (4), to the extent not previously provided, or an update of such information if any material circumstances or facts have changed.
- (iv) if and so long as the Member remains designated as being in an early warning category, it shall not without the prior written consent of the Vice-President, Financial Compliance:
 - (1) reduce its capital in any manner including by redemption, re-purchase or cancellation of any of its shares;
 - (2) reduce or repay any indebtedness which has been subordinated with the approval of the Association;
 - (3) directly or indirectly make any payments by way of loan, advance, bonus, dividend, repayment of capital or other distribution of assets to any director, officer, partner, shareholder, related company, affiliate or associate; or
 - (4) increase its non-allowable assets (as specified by the Vice-President, Financial Compliance) unless a prior binding commitment to do so exists or enter into any new commitments which would have the effect of materially increasing the non-allowable assets of the Member;
- (v) if and so long as the Member remains designated as being in an early warning category it shall continue to file its monthly financial reports within the time specified pursuant to clause (2) of By-law 30.3(ii);
- (vi) as soon as practicable after the Member is designated as being in an early warning category, the Vice- President, Financial Compliance shall conduct an on-site review of the Member's

procedures for monitoring capital on a daily basis and prepare a report as to the results of the review.

The Vice-President, Financial Compliance shall also report monthly to the applicable District Council of the Association of the fact that a Member has been designated as being in an early warning category level 1 without naming the Member.

No Member shall enter into any transaction or take any action, as described in any of sub-clauses (1), (2), (3) or (4) of clause (iv) of this By-law 30.3 which, when completed, would have or would reasonably be expected to have the effect on the Member as described in any of paragraphs (a), (b), (c) or (d), without first notifying the Vice-President, Financial Compliance in writing of its intention to do so and receiving the written approval of the Vice-President, Financial Compliance prior to implementing such transaction or action.

30.5 If the Member is designated as being in early warning level 2, the following provisions shall apply in addition to the provisions of By-law 30.3 which shall continue to apply except to the extent inconsistent with this By-law 30.5:

- (a) the chief executive officer and the chief financial officer of the Member shall immediately deliver to the Vice-President, Financial Compliance a letter advising that the circumstances of this By-law 30.5 are applicable to the Member;
- (b) the Member shall file its monthly financial reports required pursuant to By-law 16.2 no later than 10 business days, or, in the discretion of the Vice-President, Financial Compliance if he or she considers it to be practicable, such earlier time following the end of the relevant month;
- (c) the chief executive officer and the chief financial officer of the Member shall attend at the offices of the Association to outline the proposals of the Member for rectifying the problems which account for the Member being designated as being in early warning category Level 2;
- (d) the Member shall file a weekly capital report containing the same information required in a monthly financial report pursuant to By-law 16.2 no later than five business days or, in the discretion of the Vice-President, Financial Compliance if he or she considers it to be practicable, such earlier time following the end of the relevant week;
- (e) the Member shall file weekly on a form prescribed by the Vice-President, Financial Compliance a report of its aged segregation deficiencies and an explanation of the actions proposed to be taken pursuant to Regulation 2000.10 to correct such deficiencies;
- (f) the Member shall prepare and file a business plan relating to the Member's business within such time, for such period and covering such matters as the Vice-President, Financial Compliance may direct;
- (g) the Vice-President, Financial Compliance may request and the Member shall provide in such time as the Vice-President, Financial Compliance considers practicable, such reports or information, on a daily or a less frequent basis, as may be necessary or desirable in the opinion of the Vice-President, Financial Compliance to assess and monitor the financial condition or operations of the Member;
- (h) the Vice-President, Financial Compliance shall report monthly to the applicable District Council of the Association of the fact that a Member has been designated as being in an early warning category level 2 and any restrictions imposed in respect to By-law 30.6 without naming the Member;

- (i) the Member shall pay, at the discretion of the Vice-President, Financial Compliance, the reasonable costs and expenses of the Association incurred in connection with the administration of this By-law 30 in respect of the Member;
- (j) the amount of client's free credit balances permitted to be used by a Member pursuant to Regulation 1200 may be reduced to such amount as the Vice-President, Financial Compliance may in his opinion consider desirable.

REGULATION 100

MARGIN REQUIREMENTS

100.5. Underwriting

(3) **“New Issue Letter”** means an underwriting loan facility provided by a Canadian chartered bank in a form satisfactory to the Association;**Guarantees**

100.14. No Member shall provide, directly or indirectly, any guarantee, indemnity or similar form of financial assistance to any person unless the amount of the guarantee, indemnity or other assistance is limited to a fixed or determinable amount (except a guarantee provided in accordance with By-law 16.2(iv)) and margin is provided for by the Member pursuant to this Regulation 100.14 or the amount is otherwise provided for in computing the risk adjusted capital of the Member. The margin required in respect of any such guarantee, indemnity or financial assistance shall be the amount thereof, less the loan value (calculated in accordance with the Regulations) of any collateral available to the Member in respect of the guarantee, indemnity or assistance and, in the case of guarantees provided in accordance with By-law 16.2(iv), no margin shall be required.

REGULATION 200

MINIMUM RECORDS

Guide to Interpretation of Regulation 200.1

(k) & (m) **“Monthly Trial Balances and Capital Computations”**

Such trial balances and computations will serve as a check upon the current status and accuracy of the ledger accounts which Members are required to maintain and keep current and will also help to keep Members currently informed of their capital positions as required under By-law 17.1.

A Member must keep currently informed as to the excess capital position and make a computation as often as necessary to ensure that there is adequate capital at all times; but Members must preserve only the monthly computation mentioned above. On the other hand, Members whose capital position is substantially in excess of that required, may omit detailed schedules and analyses in support of the computation if they apply a more stringent application of the Regulation governing the computation.

For example, when calculating risk adjusted capital, inventories can be grouped into broader margin categories and maximum margin rates applied; offsetting provisions such as those contained in Regulation 100.4 can be ignored; and assets partly allowable or of questionable value can be excluded in their entirety.

When a Member cannot prove that adequate capital exists, the firm must notify the Senior Vice President, Member Regulation immediately.

REGULATION 1600

MONEY MARKET OPERATIONS

1600.1. The total of certain and contingent money market commitments of liabilities outstanding shall be reported weekly, in writing, to a director, senior officer or senior partner of the Member by the operational manager of its money market business. In addition, margin at the rates prescribed by the Regulations shall be computed daily on the total of certain and contingent money market commitments or liabilities outstanding. The daily margin calculations and the weekly list of commitments and liabilities outstanding shall be made available on demand to the Association together with all the relevant contracts for cross-reference purposes.

Appendix “B” - Clean Copy - Changes to IDA Rules – District Association Auditors

BY-LAW NO. 16

MEMBERS' AUDITORS AND FINANCIAL REPORTING

Panel of Members' Auditors

16.1. Each District Council shall select annually a panel of accounting firms. In addition, each District Council may at any time appoint one or more additional firms of accountants to or remove one or more firms of accountants from such panel. Except as otherwise provided by the By-laws and Regulations, each Member shall select from the panel its own auditor and the fees and expenses in respect of each audit or examination shall be paid by the Member concerned.

Filing Requirements

16.2 Members subject to the Association's audit jurisdiction shall:

- (i) File monthly with the Senior Vice-President, Member Regulation a copy of a financial report of the Member as at the end of each fiscal month or at such other date as may be agreed with the Senior Vice-President, Member Regulation. Such monthly financial reports shall contain or be accompanied by such information as may be prescribed by the Senior Vice-President, Member Regulation from time to time.
- (ii) File annually with the Senior Vice-President, Member Regulation, two copies of the Member's audited financial statements, as defined in subsection 16.2(iii), as at the end of the Member's fiscal year or as at such other fixed date as may be agreed upon with the Senior Vice-President, Member Regulation.
- (iii) The Member's financial statements shall be in such form, shall contain such information and shall be supplemented by such additional schedules as the Senior Vice-President, Member Regulation may, from time to time, prescribe. The Member's financial statements shall be filed by the Member's Auditor within seven weeks of the date as of which the statements are required to be prepared, subject to the extension of time, if any, as the Senior Vice President, Member Regulation may, in his or her discretion grant, upon the request in writing of the Member's Auditor.
- (iv) In calculating the risk adjusted capital of a Member, the financial position of the Member may, with the prior approval of the Senior Vice President, Member Regulation, be consolidated (in a manner as set out below) with that of any related company of a Member provided that:
 - (a) Such related company is subject to all of the By-laws and Regulations of either the Association or the Bourse de Montréal Inc.; and
 - (b) The Member has guaranteed the obligations of such related company and the related company has guaranteed the obligations of the Member (such guarantee to be in a form acceptable to the Senior Vice President, Member Regulation and unlimited in amount).
- (v) The said consolidation permitted shall be carried out in accordance with the following rules or in such other manner as may be acceptable to the Senior Vice President, Member Regulation:
 - (a) Inter-company accounts between the Member and the related company shall be eliminated;
 - (b) Any minority interests in the related company shall be eliminated from the capital calculation; and

- (c) Calculations with respect to the Member and the related company shall be as of the same date.

16.3. Members not subject to the Association's audit jurisdiction shall file annually with the Association one copy of the financial statements and related information, as defined in subsection 16.2(iii), as and when filed by such Member with the Bourse de Montréal Inc. If the Association so requires, such Member shall also establish to the satisfaction of the Association that as of the date of the statements filed with the Bourse de Montréal Inc. the Member's capital was sufficient to meet the requirements of the Bourse de Montréal Inc.

16.4. In addition to the statements under By-law 16.3 each Member referred to in By-law 16.3 shall file annually with the Association through the Member's Auditor, particulars of the name and relationship to the Member of each related company of the Member and such financial statements and reports with respect to the affairs of any such related company of the Member as the Association considers necessary or advisable.

Members' Auditors

16.5. The Member's Auditor shall conduct his or her examination of the accounts of the Member in accordance with generally accepted auditing standards and the scope of his or her procedures shall be sufficiently extensive to permit him or her to express an opinion on the Member's financial statements in the form prescribed in subsection 16.2(iii). Without limiting the generality of the foregoing, the scope of the examination shall, where applicable, include at least the procedures set out in Regulation 300.

16.6. Every Member's Auditor for the purpose of any such examination shall be entitled to free access to all books of account, securities, cash, documents, bank accounts, vouchers, correspondence and records of every description of the Member being examined, and no Member shall withhold, destroy or conceal any information, document or thing reasonably required by the Member's Auditor for the purpose of his examination.

Compliance

16.7. If at any time the District Council is of the opinion that the financial condition or conduct of the business of any Member has required excessive attention from the Senior Vice President, Member Regulation or his or her staff and that it would be in the interests of the Association that the Association be reimbursed by such Member, the District Council shall have the power to impose an assessment against such Member. Any decision of the District Council imposing an assessment shall be in writing and notice thereof shall be given promptly to the Member and the Senior Vice President, Member Regulation.

16.8. The Board of Directors may authorize the Association to enter into in its own name agreements or arrangements with any stock exchange, self-regulatory organization, securities enforcement or regulatory authority or other organization regulating or providing services in connection with securities trading located in Canada or any other country for the exchange of any information (including information obtained by the Association pursuant to the By-laws or Regulations or otherwise in its possession) and for other forms of mutual assistance for market surveillance, investigation, enforcement and other regulatory purposes relating to trading in securities in Canada or elsewhere.

16.9. The Association, its officers, the Senior Vice President, Member Regulation, a District Council, or any other committee of the Association authorized by the Board of Directors may provide to any stock exchange, self-regulatory organization, securities enforcement or regulatory authority or other organization regulating or providing services in connection with securities trading located in Canada or any other country any information obtained by the Association or any of the aforesaid persons or Councils pursuant to the By-laws or Regulations or otherwise in their possession and may provide other forms of

assistance for surveillance, investigation, enforcement and other regulatory purposes relating to trading in securities in Canada or elsewhere.

16.10. Each Member shall be liable for and pay to the Association fees in the amounts prescribed from time to time by the Board of Directors for the failure of the Member, its auditors or any person acting on its behalf, to file any report, form, financial statement or other information required under this By-law 16 within the times prescribed by this By-law 16, the Board of Directors, the Association or the terms of such report, form, financial statement or other information, as the case may be.

BY-LAW NO. 2

MEMBERSHIP

2.6. The Secretary shall notify all Members of the receipt of the application for Membership. Any Member may within fifteen days from the date of the mailing of such notification by the Secretary lodge with the Secretary an objection in writing to the admission of the applicant and in such event the objection shall be forwarded to the applicable District Council with the application for Membership pursuant to By-law 2.8.

2.7. The Secretary shall request the applicant to submit:

- (a) Financial statements of the applicant as of a date not more than 90 days prior to the date of application for Membership (or as of such other date as the Association may require), prepared in accordance with Form 1 and audited by a panel auditor;
- (b) Interim unaudited monthly financial statements, prepared in accordance with Form 1, for the period following the date of the audited financial statement submitted under subparagraph (a) up to the most recent month prior to the date of the Membership application;
- (c) An additional report by the applicant's auditor to the effect that, based on his examination of the affairs of the applicant, the applicant keeps a proper system of books and records; and
- (d) Such additional financial information, if any, relating to the applicant as the Association may, in its discretion, request.

2.7A. Notwithstanding the provisions of clause (a) of By-law 2.7, if an applicant is an approved participant of the Bourse de Montréal Inc. such applicant may, in lieu of the financial statements referred to in said clause (a), submit to the Association its latest audited Form 1 together with

- (i) A copy of the last monthly financial report filed by such applicant with the Bourse de Montréal Inc.; and
- (ii) A "comfort" letter from the Bourse de Montréal Inc. relating to the applicant's standing with the Bourse de Montréal Inc. in compliance, disciplinary and regulatory matters and in a form which is satisfactory to the Association. If such applicant wishes to transfer to the Association's audit jurisdiction, the applicant shall submit to the Association audited financial statements as of a date not more than 90 days prior to the date of application for transfer.

2.8. Upon notification of the Members by the Secretary pursuant to By-law 2.6 and the expiration of the fifteen day period referred to therein and upon receipt of the application for Membership from the Secretary, the applicable District Council may;

- (a) At the expiration of a period of six months or such lesser period as the Council may, in any particular case, determine, approve the application, notwithstanding any objection thereto that has been made by any Member;

- (b) Approve the application subject to such terms and conditions as may be considered appropriate by the District Council if, in the opinion of the District Council, such terms and conditions are necessary in order to ensure that the By-laws, Regulations, Rulings and Policies will be complied with by the applicant; and
- (c) Refuse the application if, in the opinion of the District Council, having regard to such factors as it may consider relevant including, without limitation, the past or present conduct, business or condition of the applicant;
 - (i) It is not satisfied that the By-laws, Regulations, Rulings and Policies will be complied with by the applicant;
 - (ii) The applicant is not qualified by reason of integrity, solvency, training or experience; or
 - (iii) Such approval is otherwise not in the public interest.

2.8A. If a District Council proposes to approve an application subject to terms and conditions pursuant to By-law 2.8(b) or to refuse an application pursuant to By-law 2.8(c):

- (a) The applicant shall be provided with a statement of the grounds upon which the District Council proposes to approve the application subject to terms and conditions or to refuse an application, and the particulars of those grounds;
- (b) The applicant shall be provided with a summary of the facts and evidence which are to be considered by the District Council; and
- (c) The District Council shall permit the applicant to appear before it on reasonable notice, and with counsel or other representative, to call evidence and cross-examine witnesses in order to show cause why the application should not be subject to terms and conditions or should not be refused. A hearing held pursuant to this By-law 2.8A shall be open to the public except where the District Council determines that all or any part of the hearing should be held in camera in accordance with the principles set out in By-law 20.20.

2.8B. The applicable District Council shall have the power to vary or remove any such terms and conditions as may have been imposed on an applicant for Membership that may be considered appropriate by the District Council, if such terms and conditions are or are no longer, as the case may be, necessary to ensure that the By-laws, Regulations, Rulings and Policies will be complied with by the applicant. In the event that the District Council proposes to vary terms and conditions in a manner which would be more burdensome to the applicant, the provisions of By-laws 2.8A through 2.8G, inclusive, shall apply in the same manner as if the District Council was exercising its powers thereunder in regard to the applicant.

2.8C. If within 10 days of being notified of a proposal to approve an application subject to terms and conditions or to refuse an application, the applicant fails to request a hearing, the District Council may approve the application subject to the proposed terms and conditions or refuse the application. If the applicant requests a hearing, the District Council may, after permitting the parties to be heard, exercise any of its powers in accordance with By-law 2.8A.

2.8D. For a meeting of a District Council which is to be a hearing pursuant to this By-law 2, the appointment of members of the District Council for the hearing and the establishment of a quorum shall be in accordance with By-law 20.1. No member of a District Council who has participated in a decision to propose the imposition of terms and conditions on an applicant or the refusal of an application shall subsequently participate in a hearing pursuant to By-law 2.8A regarding that application.

2.8E. If, pursuant to the provisions of By-law 2.8A, a District Council approves an application subject to terms and condition or refuses to approve an application, the District Council may order that the

applicant may not apply for removal or variation of terms and conditions or reapply for approval, for such periods as the District Council provides.

2.8F. Any decision of a District Council at a hearing held pursuant to By-law 2.8A shall be in writing and shall contain a concise statement of the reasons for the decision. Notice of a decision shall be delivered to the Secretary who shall then promptly give notice to the applicant. A copy of the decision shall accompany the notice.

2.8G. Any decision of a District Council pursuant to By-law 2.8A to either refuse to approve an application for Membership or to approve an application for Membership with terms and conditions attached, shall only have effect in the District where such District Council has jurisdiction unless and until otherwise ordered by the Board of Directors. In the event of such a decision by the District Council, the Board of Directors shall, upon application of either the Association or the applicant, made within 21 days of receiving notice of the decision of the District Council, review the said decision and either (a) confirm the decision in its application to that District, (b) confirm the decision of the District Council and extend its application and effect to all Districts of the Association, or (c) make such other decision as the Board of Directors considers proper.

The Board of Directors shall not, pursuant to this By-law 2.8G,

- (i) Confirm any decision of a District Council in its application to the District in which such District Council has jurisdiction; or
- (ii) Extend the application and effect of the decision to another District Council of a District; or
- (iii) Make any other decision as the Board of Directors considers proper if the securities commission having jurisdiction in such District directs that such decision shall not be confirmed, extended or made in respect of the District where it has jurisdiction, as the case may be. Any review by the Board of Directors of a decision of a District Council pursuant to this By-law 2.8G shall be conducted in accordance with and subject to the provisions of By-laws 20.41, 20.42 and 20.43 and the Bylaws referred to therein, all of which shall apply mutatis mutandis.

2.9. If and when the application is approved by the applicable District Council, the Secretary shall compute the amount of the Annual Fee to be paid by the applicant pursuant to By-law 3.2.

2.10. Subject to the provisions of By-law 2.11, the Secretary shall submit to the next succeeding meeting of the Board of Directors each application which has been approved by the applicable District Council, together with the amount of the Annual Fee to be paid by the applicant.

2.11. Subject to the provisions of this By-law 2.11, the Board of Directors shall thereupon consider the application at such meeting at which its decision as to admission of the applicant and the Annual Fee payable by it shall be expressed by resolution passed by the affirmative vote of at least a majority of all of the members of the Board of Directors. The Board of Directors shall have the power to confirm the decision of the District Council, to exercise any of the powers that a District Council may exercise under By-law 2.8 or to make any other decision as the Board of Directors considers proper. Any review, consideration or determination by the Board of Directors in respect of an application for Membership shall be conducted in accordance with and subject to the provisions of By-laws 20.41, 20.42 and 20.43 and the By-laws referred to therein, all of which shall apply mutatis mutandis.

2.12. If and when the application has been approved by the Board of Directors and the applicant has been duly licensed or registered to carry on business as a securities dealer under the applicable law of the province or provinces or territories in which the applicant carries on or proposes to carry on business, and upon payment of the balance of the Entrance Fee and Annual Fee, the applicant shall become and be a Member.

2.13. Notwithstanding the foregoing, if an applicant qualifies for exemption from payment of the Entrance Fee and if the applicable District Council approves of such exemption and gives its approval to the application for Membership, the applicant shall be admitted to Membership without reference to the Board of Directors for final decision if all other conditions relating to an application for Membership have been duly complied with except such conditions, if any, as such applicable District Council may deem appropriate to be waived under the circumstances of any particular case.

2.14. Notwithstanding the provisions of By-laws 2.6, 2.8, 2.10, 2.11, and 2.12 wherever an applicant for Membership is a related company of a Member which confirms its intention to continue its Membership in the Association, the applicable District Council, after receipt of such financial information as the Senior Vice-President, Member Regulation may require, shall either approve or disapprove the application and notify the Secretary of their decision. The Secretary shall thereupon notify by writing each member of the Board of Directors and the Board of Directors may, in its discretion, forthwith approve the application by instrument in writing signed by a majority of the members thereof.

2.15. The Secretary shall keep a register of the names and business addresses of all Members and of their respective Annual Fees. The Annual Fees of Members shall not be made public by the Association.

2.16. The Secretary shall furnish to the securities commissions of all the provinces of Canada a list of Members and from time to time as changes occur in the Membership shall communicate such changes to such commissions.

BY-LAW NO. 8

RESIGNATIONS, AMALGAMATIONS, ETC.

8.2. A Member which tenders its resignation shall in its letter of resignation state its reasons for resigning and shall file with the Secretary one of:

- (a) A balance sheet of the Member reported upon by the Member's Auditor without qualification as of such date as the Association may require which balance sheet shall indicate that the Member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any; or
- (b) A report from the Member's Auditor without qualification that in his or her opinion the Member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any; or
- (c) If permitted by the applicable District Council a report without qualification from the Bourse de Montréal Inc. that the Member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any;

And a report from the Member's Auditor that clients' free securities are properly segregated and earmarked. If the financial information required by (a), (b) or (c) above is not filed with the letter of resignation the Member shall indicate in the letter of resignation the date by which such financial information shall be filed.

8.3AA Notwithstanding the provisions of By-law 8.2 and By-law 2, if a Member and a non-Member are amalgamated and the Member wishes the continuing entity to continue as a Member, the Member shall not be required to comply with the provisions of By-law 8.2 and the non-Member shall not be required to comply with the provisions of By-law 2 if both the Member and the non-Member have provided the Association with all such financial information as it may require and the association is satisfied with such financial information.

8.5. Unless the Board of Directors, in its discretion otherwise declares, a resignation shall take effect as of the close of business (5:00 p.m. head office local time), on the date the Secretary receives from the

Member's Auditor or the Bourse de Montréal Inc. a written statement certifying that, in their opinion, based on the balance sheet and/or reports referred to in By-law 8.2, the Member has liquid assets sufficient to meet all its liabilities other than subordinated loans, if any, and if, to the knowledge of the Secretary after due enquiry, the Member is not indebted to the Association and no complaint against the Member or any investigation of the affairs of the Member is pending.

8.6. When a Member signifies in writing its intention to resign, the Secretary shall so advise the Member resigning and all other Members, the Board of Directors, the securities commissions of all of the provinces of Canada, the Bank of Canada, and such other persons or bodies as the Secretary may decide through the issuance of a Bulletin within one week of such notification. Similarly, the same shall occur when the resignation of a Member becomes effective.

BY-LAW NO. 11

DISTRICT COUNCILS AND MEETINGS

11.6. Each District Council shall at its first meeting after the Annual Meeting select, in accordance with By-law 16.1, a panel of Members' Auditors for the ensuing year.

BY-LAW NO. 17

MINIMUM CAPITAL, CONDUCT OF BUSINESS AND INSURANCE

17.1. Every Member shall have and maintain at all times risk adjusted capital greater than zero calculated in accordance with Form 1 and with such requirements as the Board of Directors may from time to time prescribe. If at any time the risk adjusted capital of a Member is, to the knowledge of such Member, less than zero, such Member shall immediately notify the Senior Vice President, Member Regulation.

17.10. No Member shall publish or circulate any financial statement unless such statement is accompanied by a report of the Member's Auditor upon such statement.

17.11. Every Member shall obtain from clients and maintain in respect of its own account such minimum margin in such amount and in accordance with such requirements as the Board of Directors may from time to time by Regulation prescribe. Such minimum margin shall be used for calculations pursuant to Form 1.

17.12. No Member shall on less than 20 days' prior notice (i) to the Association, change its name, effect or permit any change in its constitution affecting voting rights, take any steps to dissolve, wind-up, surrender its charter or liquidate or dispose of all or substantially all of its assets, (ii) to the Association, effect or permit any alteration in its capital structure including the allotment, issue, repurchase, redemption, cancellation, subdivision or consolidation of any shares in its capital. In either case, the Member shall not proceed with such action if within such 20-day period it is advised that the matter is to be submitted to the applicable District Council for approval. The applicable District Council may review any matter so submitted to it and either approve or disapprove of the proposed action if it considers that the action may result in the Member being unable to comply with the By-laws and Regulations of the Association.

17.13. Each Member shall from time to time furnish to an officer of the Association such statistical information with respect to such Member's business as, in the opinion of the Board of Directors, may be necessary in the interests of all the Members of the Association provided that no request for such information shall be made of any Member unless approved by the Board of Directors.

17.14. A Member engaged in trading in any securities or commodity futures contracts or options listed on or issued by a recognized stock exchange, commodity futures exchange, clearing or service

corporation, or other listing or issuing organization, as the case may be, in respect of which the By-laws, Regulations or any Rulings do not prescribe specific standards or requirements, shall comply with the provisions of the relevant bylaws and regulations of such stock exchange, commodity futures exchange, clearing or service corporation, or other listing or issuing organization in effect from time to time to the extent not inconsistent with the Bylaws and Regulations. For the purposes of this By-law 17.14, the Board of Directors shall, from time to time, designate recognized stock exchanges, futures exchanges, clearing or service corporations, or other listing or issuing organizations.

17.15. The Board of Directors may exempt a Member from the requirements of any provision of the By-laws and Regulations where it is satisfied that to do so would not be prejudicial to the interests of the Members, their clients or the public and in granting such exemption the Board of Directors may impose such terms and conditions as are considered necessary.

BY-LAW NO. 21

NO ACTIONS AGAINST THE ASSOCIATION

21.1. No Member and no partner, director or officer of a Member (including in all cases a Member whose rights and privileges have been suspended or terminated and a Member who has been expelled from the Association or whose Membership has been forfeited) and no person who, upon application for approval as a partner, director, officer, sales manager, branch manager, assistant or co-branch manager, registered representative or investment representative, submitted to the jurisdiction of the Association, shall be entitled, subject to the provisions of By-law 33, to commence or carry on any action or other proceedings against the Association or against the Board of Directors, the National Advisory Committee, the Executive Committee, any District Council, any Business Conduct Committee, any District Audit Committee, or any other National, District or other Committee or Council of the Association, or against any member of the staff or officer of the Association or member or officer of any such Board, Committee or Council or against any Member's Auditor, in respect of any penalty imposed or any act or omission done or omitted under the provisions of and in compliance with or intended compliance with the provisions of any By-law, Regulation, Ruling or Policy.

BY-LAW NO. 28

DISCRETIONARY FUND

28.8. The Association's auditor shall, in each year, examine the accounts of the Discretionary Fund, and shall make a report thereon to the Board of Directors in such form as the Board of Directors may from time to time prescribe.

BY-LAW NO. 30

EARLY WARNING SYSTEM

30.3. If a Member is designated in early warning level 1 then, notwithstanding the provisions of any By-law (other than By-law 30.5), Regulation, Ruling or Policy of the Association, the following provisions shall apply:

- (i) the chief executive officer and chief financial officer of the Member shall immediately deliver to the Vice-President, Financial Compliance a letter containing the following:
 - (1) advice of the fact that any of the circumstances in By-law 30.2 are applicable;
 - (2) an outline of the problems associated with the circumstances referred to in (1);
 - (3) an outline of the proposal of the Member to rectify the problems identified; and

- (4) an acknowledgement that the Member is in early warning category and that the restrictions contained in By-law 30.3(iv) apply;

a copy of which letter shall be provided to the Member's auditor and to the Canadian Investor Protection Fund;

- (ii) the Vice-President, Financial Compliance shall immediately designate the Member as being in an early warning category level 1 and shall deliver to the chief executive officer and chief financial officer a letter containing the following:
 - (1) advice that the Member is designated as being in early warning category level 1;
 - (2) a request that the Member file its next monthly financial report required pursuant to By-law 16.2 no later than 15 business days or, in the discretion of the Vice-President, Financial Compliance if he considers it to be practicable, such earlier time following the end of the relevant month;
 - (3) a request that the Member respond to the letter as required under paragraph (iii) and that such response, together with the notice received pursuant to paragraph (i), will be forwarded to the Canadian Investor Protection Fund and may be forwarded to any securities commission having jurisdiction over the Member;
 - (4) advice that the restrictions referred to in paragraph (iv) shall apply to the Member;
 - (5) such other information as the Vice-President, Financial Compliance shall consider relevant;
- (iii) the chief executive officer and the chief financial officer of the Member shall respond by letter signed by them both within five business days of receipt of the letter referred to in paragraph (ii), with a copy to be sent to the Member's auditor, containing the information and acknowledgement required pursuant to paragraphs (1), (2), (3) and (4), to the extent not previously provided, or an update of such information if any material circumstances or facts have changed.
- (iv) if and so long as the Member remains designated as being in an early warning category, it shall not without the prior written consent of the Vice-President, Financial Compliance:
 - (1) reduce its capital in any manner including by redemption, re-purchase or cancellation of any of its shares;
 - (2) reduce or repay any indebtedness which has been subordinated with the approval of the Association;
 - (3) directly or indirectly make any payments by way of loan, advance, bonus, dividend, repayment of capital or other distribution of assets to any director, officer, partner, shareholder, related company, affiliate or associate; or
 - (4) increase its non-allowable assets (as specified by the Vice-President, Financial Compliance) unless a prior binding commitment to do so exists or enter into any new commitments which would have the effect of materially increasing the non-allowable assets of the Member;
- (v) if and so long as the Member remains designated as being in an early warning category it shall continue to file its monthly financial reports within the time specified pursuant to clause (2) of By-law 30.3(ii);
- (vi) as soon as practicable after the Member is designated as being in an early warning category, the Vice- President, Financial Compliance shall conduct an on-site review of the Member's

procedures for monitoring capital on a daily basis and prepare a report as to the results of the review.

The Vice-President, Financial Compliance shall also report monthly to the applicable District Council of the Association of the fact that a Member has been designated as being in an early warning category level 1 without naming the Member.

No Member shall enter into any transaction or take any action, as described in any of sub-clauses (1), (2), (3) or (4) of clause (iv) of this By-law 30.3 which, when completed, would have or would reasonably be expected to have the effect on the Member as described in any of paragraphs (a), (b), (c) or (d), without first notifying the Vice-President, Financial Compliance in writing of its intention to do so and receiving the written approval of the Vice-President, Financial Compliance prior to implementing such transaction or action.

30.5 If the Member is designated as being in early warning level 2, the following provisions shall apply in addition to the provisions of By-law 30.3 which shall continue to apply except to the extent inconsistent with this By-law 30.5:

- (a) the chief executive officer and the chief financial officer of the Member shall immediately deliver to the Vice-President, Financial Compliance a letter advising that the circumstances of this By-law 30.5 are applicable to the Member;
- (b) the Member shall file its monthly financial reports required pursuant to By-law 16.2 no later than 10 business days, or, in the discretion of the Vice-President, Financial Compliance if he or she considers it to be practicable, such earlier time following the end of the relevant month;
- (c) the chief executive officer and the chief financial officer of the Member shall attend at the offices of the Association to outline the proposals of the Member for rectifying the problems which account for the Member being designated as being in early warning category Level 2;
- (d) the Member shall file a weekly capital report containing the same information required in a monthly financial report pursuant to By-law 16.2 no later than five business days or, in the discretion of the Vice-President, Financial Compliance if he or she considers it to be practicable, such earlier time following the end of the relevant week;
- (e) the Member shall file weekly on a form prescribed by the Vice-President, Financial Compliance a report of its aged segregation deficiencies and an explanation of the actions proposed to be taken pursuant to Regulation 2000.10 to correct such deficiencies;
- (f) the Member shall prepare and file a business plan relating to the Member's business within such time, for such period and covering such matters as the Vice-President, Financial Compliance may direct;
- (g) the Vice-President, Financial Compliance may request and the Member shall provide in such time as the Vice-President, Financial Compliance considers practicable, such reports or information, on a daily or a less frequent basis, as may be necessary or desirable in the opinion of the Vice-President, Financial Compliance to assess and monitor the financial condition or operations of the Member;
- (h) the Vice-President, Financial Compliance shall report monthly to the applicable District Council of the Association of the fact that a Member has been designated as being in an early warning category level 2 and any restrictions imposed in respect to By-law 30.6 without naming the Member;

- (i) the Member shall pay, at the discretion of the Vice-President, Financial Compliance, the reasonable costs and expenses of the Association incurred in connection with the administration of this By-law 30 in respect of the Member;
- (j) the amount of client's free credit balances permitted to be used by a Member pursuant to Regulation 1200 may be reduced to such amount as the Vice-President, Financial Compliance may in his opinion consider desirable.

REGULATION 100

MARGIN REQUIREMENTS

100.5. Underwriting

- (3) **“New Issue Letter”** means an underwriting loan facility provided by a Canadian chartered bank in a form satisfactory to the Association;

Guarantees

100.14. No Member shall provide, directly or indirectly, any guarantee, indemnity or similar form of financial assistance to any person unless the amount of the guarantee, indemnity or other assistance is limited to a fixed or determinable amount (except a guarantee provided in accordance with By-law 16.2(iv)) and margin is provided for by the Member pursuant to this Regulation 100.14 or the amount is otherwise provided for in computing the risk adjusted capital of the Member. The margin required in respect of any such guarantee, indemnity or financial assistance shall be the amount thereof, less the loan value (calculated in accordance with the Regulations) of any collateral available to the Member in respect of the guarantee, indemnity or assistance and, in the case of guarantees provided in accordance with By-law 16.2(iv), no margin shall be required.

REGULATION 200

MINIMUM RECORDS

Guide to Interpretation of Regulation 200.1

(k) & (m) “Monthly Trial Balances and Capital Computations”

Such trial balances and computations will serve as a check upon the current status and accuracy of the ledger accounts which Members are required to maintain and keep current and will also help to keep Members currently informed of their capital positions as required under By-law 17.1.

A Member must keep currently informed as to the excess capital position and make a computation as often as necessary to ensure that there is adequate capital at all times; but Members must preserve only the monthly computation mentioned above. On the other hand, Members whose capital position is substantially in excess of that required, may omit detailed schedules and analyses in support of the computation if they apply a more stringent application of the Regulation governing the computation.

For example, when calculating risk adjusted capital, inventories can be grouped into broader margin categories and maximum margin rates applied; offsetting provisions such as those contained in Regulation 100.4 can be ignored; and assets partly allowable or of questionable value can be excluded in their entirety.

When a Member cannot prove that adequate capital exists, the firm must notify the Senior Vice President, Member Regulation immediately.

REGULATION 1600

MONEY MARKET OPERATIONS

1600.1. The total of certain and contingent money market commitments of liabilities outstanding shall be reported weekly, in writing, to a director, senior officer or senior partner of the Member by the operational manager of its money market business. In addition, margin at the rates prescribed by the Regulations shall be computed daily on the total of certain and contingent money market commitments or liabilities outstanding. The daily margin calculations and the weekly list of commitments and liabilities outstanding shall be made available on demand to the Association together with all the relevant contracts for cross-reference purposes.