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For distribution to relevant parties within your firm

BULLETIN #3354
November 15, 2004

By-Laws and Regulations

Regulation 100.5 and Schedule 2A of Form 1 – Capital requirements for Underwriting Commitments

The Board of Directors of the Association has approved amendments to Regulation 100.5 and Schedule 2A of Form 1 relating to the capital requirements for underwriting commitments to be made effective March 1, 2005. Copies of amended Regulation 100.5 and Schedule 2A of Form 1 are enclosed as Attachment #1 and #2 respectively. Also enclosed as Attachment #3 is a copy of the standard form new issue loan agreement that has been developed to accompany the proposed amendments. This new issue loan agreement format must be used effective March 1, 2005 to qualify for the capital requirement reductions provided where new issue letters are obtained, as set out in amended Regulation 100.5. Refer to Member Regulation Notice MR-0316 for further details of the rule changes that have been made.

Kenneth A. Nason
Association Secretary

**INVESTMENT DEALERS ASSOCIATION OF CANADA
CAPITAL RULES FOR UNDERWRITING COMMITMENTS**

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada, hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. Regulation 100.5 is repealed and replaced as follows:

“100.5. Underwriting

(a) In this Regulation 100.5 the expression:

(i) “appropriate documentation” with respect to the portion of the underwriting commitment where expressions of interest have been received from exempt purchasers means, at a minimum:

(A) that the lead manager has a record of the final affirmed exempt purchaser allocation indicating for each expression of interest:

(I) the name of the exempt purchaser;

(II) the name of the employee of the exempt purchaser accepting the amount allocated; and

(III) the name of the representative of the lead underwriter responsible for affirming the amount allocated to the exempt purchaser, time stamped to indicate date and time of affirmation

and;

(B) that the lead manager has notified in writing all the banking group participants when the entire allotment to exempt purchasers has been affirmed pursuant to Regulation 100.5(a)(i)(A) so that all banking group participants may take advantage of the reduction in the capital requirement.

Under no circumstances may the lead manager reduce its own capital requirement on an underwriting commitment due to such expressions of interest from exempt purchasers without providing notification to the rest of the banking group.

(ii) a “commitment” pursuant to an underwriting agreement or banking group agreement to purchase a new issue of securities or a secondary issue of securities means, where all other non-pricing agreement terms have been agreed to, where two of the following three pricing terms have been agreed to:

(A) issue price;

(B) number of shares;

(C) commitment amount [issue price x number of shares].

(iii) “disaster out clause” means a provision in an underwriting agreement substantially in the following form:

“The obligations of the Underwriter (or any of them) to purchase (the Securities) under this agreement may be terminated by the Underwriter (or any of them) at its option by written notice to that effect to the Company at any time prior to the Closing if there should develop, occur or come into effect or existence any event, action, state, condition or major financial occurrence of national or international consequence or any law or regulation which in the opinion of the Underwriter

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seriously adversely affects, or involves, or will seriously adversely affect, or involve, the financial markets or the business, operations or affairs of the Company and its subsidiaries taken as a whole.”

- (iv) “market out clause” means a provision in an underwriting agreement which permits an underwriter to terminate its commitment to purchase in the event of unsalability due to market conditions, substantially in the following form:

“If, after the date hereof and prior to the Time of Closing, the state of financial markets in Canada or elsewhere where it is planned to market the Securities is such that, in the reasonable opinion of the Underwriters (or any of them), the Securities cannot be marketed profitably, any Underwriter shall be entitled, at its option, to terminate its obligations under this agreement by notice to that effect given to the Company at or prior to the Time of Closing.”

- (v) “new issue letter” means an underwriting loan facility in a form satisfactory to the Vice-President, Financial Compliance. Where the provider of the new issue letter is other than an acceptable institution, the funds that can be drawn pursuant to the letter must either be fully collateralized by high grade securities or held in escrow with an acceptable institution.

Under the terms of the new issue letter, the letter issuer will:

- (A) provide an irrevocable commitment to advance funds based only on the strength of the new issue and the Member firm;
- (B) advance funds to the Member firm for any portion of the commitment not sold:
- (I) for an amount based on a stated loan value rate;
 - (II) at a stated interest rate; and
 - (III) for a stated period of time.

and;

- (C) under no circumstances, in the event that the Member firm is unable to repay the loan at the termination date, resulting in a loss or potential loss to the letter issuer, have or seek any right of set-off against:
- (I) collateral held by the letter issuer for any other obligations of the Member firm or the firm’s customers;
 - (II) cash on deposit with the letter issuer for any purpose whatsoever; or
 - (III) securities or other assets held in a custodial capacity by the letter issuer for the Member firm either for the firm’s own account or for the firm’s customers.
- in order to recover the loss or potential loss.

- (vi) “normal margin” means margin otherwise required by the Regulations.

- (vii) “normal new issue margin” means:

- (A) where the market value of the security is \$2.00 per share or more and the security qualifies for a reduced margin rate pursuant to Regulation 100.12(a), 60% of normal margin for the period from the date of commitment to the business day prior to settlement date and 100% of normal margin from settlement date on;
- (B) where the market value of the security is \$2.00 per share or more and the security does not qualify for a reduced margin rate pursuant to Regulation 100.12(a), 80%

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of normal margin for the period from the date of commitment to the business day prior to settlement date and 100% of normal margin from settlement date on; or

(C) where the market value of the security is less than \$2.00 per share, 100% of normal margin.

(b) Where a Member has a commitment pursuant to an underwriting agreement or banking group agreement to purchase a new issue of securities or a secondary issue of securities, the following margin rates are hereby prescribed:

	<i>Without New Issue Letter</i>	<i>With new issue letter</i>
(1) Underwriting agreement does not include market out clause or disaster out clause	Normal new issue margin required from the date of commitment.	10% of normal new issue margin from the date of the letter to the business day prior to settlement date or when the new issue letter expires, whichever is earlier; 10% of normal new issue margin from settlement date to 5 business days after settlement date or when the new issue letter expires, whichever is earlier, where the new issue letter has been drawn; 25% of normal new issue margin for the next succeeding 5 business days or when the new issue letter expires, whichever is earlier, where the new issue letter has been drawn; 50% of normal new issue margin for the next succeeding 5 business days or when the new issue letter expires, whichever is earlier, where the new issue letter has been drawn; 75% of normal new issue margin for the next succeeding 5 business days or when the new issue letter expires, whichever is earlier, where the new issue letter has been drawn; Otherwise, normal new issue margin required.
(2) Underwriting agreement includes disaster out clause	50% of normal new issue margin from the date of the commitment until settlement date or the expiry of the disaster out clause, whichever is earlier; margin required as in (1) above thereafter.	10% of normal new issue margin from the date of the commitment until settlement date or the expiry of the disaster out clause, whichever is earlier; margin required as in (1) above thereafter.
(3) Underwriting agreement includes market out clause	10% of normal new issue margin required from the date of commitment until settlement date or the expiry of the market out clause, whichever is earlier; margin required as in (1) above thereafter.	5% of normal new issue margin required from the date of commitment until settlement date or the expiry of the market out clause, whichever is earlier; margin required as in (1) above thereafter.

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| (4) Underwriting agreement includes disaster out clause and market out clause | 10% of normal new issue margin required from the date of commitment until settlement date or the expiry of the market out clause, whichever is earlier; margin required as in (1) (2) and (3) above thereafter. | 5% of normal new issue margin required from the date of commitment until settlement date or the expiry of the market out clause, whichever is earlier; margin required as in (1) (2) and (3) above thereafter. |
|---|---|--|

If the margin rates prescribed above in respect of commitments for which a new issue letter is available are less than the margin rates required by the issuer of such letter, the higher rates required by the issuer shall be applied.

- (c) Where a Member has a commitment pursuant to an underwriting agreement or banking group agreement to purchase a new issue of securities or a secondary issue of securities and the Member has determined through obtaining appropriate documentation:
- (i) that the allocation between retail and exempt purchasers has been finalized;
 - (ii) that expressions of interest received from the entire allotment to exempt purchasers have been verbally affirmed but not yet ticketed;
 - (iii) that there is unlikely to be a significant renege rate on the expressions of interest received from exempt purchasers; and
 - (iv) that the Member is not significantly leveraging its underwriting activities through the use of the capital requirement reduction provided on that portion of the underwriting commitment where expressions of interest have been received from exempt purchasers.

the following margin rates are hereby prescribed for the portion of the commitment allocated to exempt purchasers:

	<i>Without New Issue Letter</i>	<i>With new issue letter</i>
(1) Underwriting agreement does not include market out clause or disaster out clause	From the date that the expressions of interest received from the entire allotment to exempt purchasers have been verbally affirmed but not yet ticketed until the date the sales are contracted: 20% of normal new issue margin is required, provided the current market value of the commitment is at or above 90% of new issue value (90% x issue price x number of shares); 40% of normal new issue margin is required, provided the current market value of the commitment is at or above 80% of new issue value (80% x issue price x number of shares) but less than 90% of new issue value; Otherwise normal new issue margin is required.	As in (b) above
(2) Underwriting agreement includes disaster out clause	From the date that the expressions of interest received from the entire allotment to exempt purchasers have been verbally affirmed but not yet ticketed until the date the sales are	As in (b) above

clause contracted:
 20% of normal new issue margin is required, provided the current market value of the commitment is at or above 90% of new issue value (90% x issue price x number of shares);
 40% of normal new issue margin is required, provided the current market value of the commitment is at or above 80% of new issue value (80% x issue price x number of shares) but less than 90% of new issue value;
 Otherwise normal new issue margin is required.

- | | | |
|---|-----------------|-----------------|
| (3) Underwriting agreement includes market out clause | As in (b) above | As in (b) above |
| (4) Underwriting agreement includes disaster out clause and market out clause | As in (b) above | As in (b) above |

(d) Where:

- (i) the normal new issue margin required on any one commitment is reduced due to either:
- (A) the use of a new issue letter in accordance with (b) above; or
 - (B) qualifying expressions of interest received from exempt purchasers that have been verbally affirmed but not yet contracted in accordance with (c) above.

and;

- (ii) the margin required in respect of such commitment (in the case of (d)(i)(A) where a new issue letter is undrawn), determined in accordance with (b)(1), (2), (3) or (4) or (c)(1), (2), (3) or (4) as applicable and as if the margin reduction set out in (d)(i)(A) or (d)(i)(B) were not available, exceeds 40% of such Member's net allowable assets,

such excess shall be added to total margin required pursuant to Form 1. The amount to be deducted may be reduced by the amount of margin provided for as required by (b) or (c) above on the individual underwriting position to which such excess relates.

(e) Where:

- (i) the normal new issue margin required on some or all commitments is reduced due to either:
- (A) the use of a new issue letter in accordance with (b) above; or
 - (B) qualifying expressions of interest received from exempt purchasers that have been verbally affirmed but not yet contracted in accordance with (c) above.

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and

- (ii) the aggregate margin required in respect of such commitments (in the case of (d)(i)(A) where a new issue letter is undrawn), determined in accordance with (b)(1), (2), (3) or (4) or (c)(1), (2), (3) or (4) as applicable and as if the margin reduction set out in (d)(i)(A) or (d)(i)(B) were not available, exceeds 100% of such Member's net allowable assets,

such excess shall be added to total margin required pursuant to Form 1. The amount to be deducted may be reduced by the amount of margin provided for as required by (b) and (c) above on individual underwriting positions and by the amount required to be deducted from risk adjusted capital pursuant to (d) above.

- (f) In determining the amount of a Member's commitment pursuant to an underwriting agreement or banking group agreement for the purposes of clauses (b), (c), (d) and (e) above, receivables from members of the banking or selling groups in respect of firm obligations to take down a portion of a new issue of securities (i.e. not after-market trading) may be deducted from the liability of the Member to the issuer.

PASSED AND ENACTED BY THE Board of Directors this 28th day of January 2004, to be effective on a date to be determined by Association staff.

**INVESTMENT DEALERS ASSOCIATION OF CANADA
CAPITAL RULES FOR UNDERWRITING COMMITMENTS**

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada, hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. Form 1, Schedule 2A is repealed and replaced as attached:

PASSED AND ENACTED BY THE Board of Directors this 28th day of January 2004, to be effective on a date to be determined by Association staff.

DATE: _____

PART II
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

MARGIN FOR CONCENTRATION IN UNDERWRITING COMMITMENTS

INDIVIDUAL CONCENTRATION:

<u>Description</u> <i>(see note 3)</i>	<u>Market Value</u>	<u>Normal Margin</u>	<u>40% of Net allowable assets</u>	<u>Excess</u>	<u>Margin Already Provided</u> <i>(see note 2)</i>	<u>Concentration Margin</u>
1. SUBTOTAL.....						\$ _ _ _ _ _

OVERALL CONCENTRATION:

<u>Description</u> <i>(see note 5)</i>	<u>Total Market Value</u>	<u>Normal Margin</u>	<u>100% of Net allowable assets</u>	<u>Excess</u>	<u>Margin Already Provided</u> <i>(see note 4)</i>	<u>Concentration Margin</u>
2.						\$ _ _ _ _ _
3. TOTAL CONCENTRATION MARGIN [<i>lines 1 plus 2</i>]						\$ _ _ _ _ _ B-8

NOTES:

1. This schedule need only be completed for underwriting commitments requiring concentration margin.
2. **INDIVIDUAL COMMITMENT CONCENTRATION:**
Where the normal margin required on any one commitment is reduced due to either:
 - (a) the use of a new issue letter; or
 - (b) qualifying expressions of interest received from exempt purchasers that have been verbally affirmed but not yet contracted [the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally affirmed]
 and the normal margin on the commitment exceeds 40% of the member firm's net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on the individual underwriting position to which such excess relates.
3. Report details by individual commitments.
4. **OVERALL COMMITMENT CONCENTRATION:**
Where the normal margin required on some or all commitments is reduced due to either:
 - (a) the use of a new issue letter; or
 - (b) qualifying expressions of interest received from exempt purchasers that have been verbally affirmed but not yet contracted [the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally affirmed]
 and the aggregate normal margin on these commitments exceeds 100% of the member firm's net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on such commitments and by the amount, if any, already provided for individual concentration.
5. It is not necessary to report details of individual commitments. Report the aggregate totals.

**NEW ISSUE LOAN
MASTER AGREEMENT**

DATE: xxxx xx, 20xx

BETWEEN:

[Name of Member]

("Member")

- and -

[Name of Issuer]

("Lender")

INTRODUCTION:

The Member is a member of the self-regulatory organization ("SRO") having prime audit jurisdiction over the Member and engages in underwriting new or secondary issues of securities subject to the by-laws, regulations and rules of the SRO. The SRO Rules contemplate the calculation of capital and margin requirements of the Member in respect of such underwritings according to whether a loan facility in the form of a new issue letter (as defined by the SRO Rules) has been obtained.

This Master Agreement is intended to provide for new issue letters by the Lender in favour of the Member from time to time as evidenced by confirmations ("Confirmations") relating to specific underwritings and as governed by this Master Agreement.

AGREEMENT:

The Member and Lender for good consideration hereby acknowledge and agree as follows:

1. **Interpretation.** This Agreement and each Confirmation shall form one agreement and shall be interpreted in accordance with the provisions and definitions herein and in each such Confirmation. In the event of any inconsistency between this Master Agreement and a Confirmation, the terms of the Master Agreement will govern. Terms used in this Agreement or any Confirmation shall have the meanings set out below, unless defined otherwise or the context requires:

"Business Day" means a day on which The Toronto Stock Exchange is open for regular trading business.

"Collateral" means the aggregate number of securities constituting the part of the New Issue in respect of which the Member grants to the Lender a security interest, pledge or hypothecation in accordance with Section 4(a).

"Confirmation" means a confirmation issued by the Lender for a Loan relating to a specific underwriting as provided in Section 2(a) and Schedule I to this Master Agreement.

"Default" means with respect to the Member:

- (a) the failure to repay any amount advanced under the Loan, interest thereon or any other amounts owed by the Member to the Lender in respect of a Loan;
- (b) the failure to repay any amount required to be repaid by the Member to the Lender in respect of moneys borrowed or credit extended under any agreement or arrangement, in writing or not in writing, between the Lender and the Member other than this Master Agreement or the Loan; or

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- (c) the insolvency of the Member or the Member becoming subject to the provisions of the *Bankruptcy and Insolvency Act* (Canada) by voluntary or involuntary assignment or petition or proceedings in respect of a proposal.

"Depository" means a depository holding Collateral in accordance with Section 4(b).

"Lender's Proceeds" means the proceeds of the sale of Collateral referred to in Section 4(d).

"Loan" means a loan made pursuant to Section 2(a) in accordance with the terms and conditions of a Confirmation and Loan Commitment.

"Loan Commitment" means the amount of the Loan agreed to be advanced in accordance with Section 2(a) by the Lender to the Member as specified in a Confirmation.

"New Issue" means a new or secondary issue of securities as described in Section 2(a) in respect of which a new issue letter has been made available.

"new issue letter" means a new issue letter as defined in the SRO Rules.

"Risk Adjusted Capital" means the amount calculated as such in accordance with SRO Rules.

"Settlement Date" means the date(s) on which the Member is required to acquire and pay for (for its own account or the account of any other person) the securities which are the subject of a New Issue.

"SRO" means the self-regulatory organization sponsoring the Canadian Investor Protection Fund having prime audit jurisdiction over the Member.

"SRO Rules" means the by-laws, regulations, rules, policies, forms and regulatory notices and directives of the SRO in effect from time to time, provided that no amendment, addition or deletion in respect of the SRO Rules shall affect the rights and obligations of the Lender hereunder until 90 days after the effective date of the same or such earlier time as the Lender may agree.

2. (a) **New Issue Letters.** The Lender and the Member may from time to time enter into a Loan Commitment to be evidenced by a Confirmation substantially in the form of Schedule I hereto to provide a Loan for the purpose of financing the underwriting by the Member of new or secondary issues of securities in circumstances where a new issue letter under SRO Rules may allow a reduction of capital or margin requirements for the Member. Nothing in this Master Agreement shall, or shall be deemed to, obligate or bind the Lender in any way to make available such Loan Commitments or Loans and the Lender shall only be so bound and obligated on the execution, delivery and acceptance of a Confirmation in respect of a specific New Issue. The Member shall promptly advise the Lender from time to time of agreements entered into by it with other Lenders in terms substantially the same as this Master Agreement. In the normal course of the Member's business it is expected the Member will only arrange one Confirmation under this Master Agreement and other similar agreements in respect of each New Issue, provided that if the Member executes and delivers a Confirmation to more than one Lender with respect to a specific New Issue it will promptly advise each such Lender of the fact and terms of each Confirmation.
- (b) **Loan Advances.** Unless the Loan Commitment shall have been terminated or reduced in accordance with Section 3(a), the Lender shall advance the amount of the Loan for the account of the Member in respect of any Loan Commitment for which a Confirmation has been entered into, subject to the terms and conditions of the Confirmation and this Master Agreement including the receipt of Collateral by the Lender pursuant to Section 4(a), and provided that the aggregate amount of such advance shall not exceed the amount of the Loan Commitment. Interest and any other charges payable on such outstanding Loans from time to time shall be as set out in the Confirmation for the Loan Commitment.

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The SRO shall have the right to request and require the Lender to advance the Loan under a Confirmation in accordance with this Master Agreement and to direct that payment of any such Loan to be made to either the Member, the SRO or some other person or entity designated by the SRO. The Member shall be liable to the Lender for the reimbursement of any Loans received by the SRO or by any person or entity designated by the SRO as if such Loans had been made at the Member's request and received by it.

The obligations of the Lender to advance Loans pursuant to this Agreement and a Confirmation shall be unconditional in any event whatsoever including the dissolution, winding-up, liquidation, insolvency or bankruptcy of the Member. The obligation of the Lender to make advances shall not be affected by any claim or defence, legal or equitable, which the Lender may have against the Member, and the Lender shall not be entitled to set off any part of a Loan Commitment that is unadvanced from time to time against any debts owed to it including, without limitation, debts in respect of any other Credit or under this Agreement. In the event of default by the Lender to advance any Loan upon the request of the SRO, the SRO shall have a right of action for recovery of such advance against the Lender, and the Lender shall not be entitled to set up against the SRO any ground of defence, including error or fraud, which it might have against the Member.

3. (a) **Termination or Reduction by Member.** All or part of any Loan Commitment may be reduced or terminated, by the Member on [one] Business Day's notice to the Lender provided that the Risk Adjusted Capital of the Member (calculated after taking into account such reduction or termination) is greater than zero. Amounts of the Loan Commitment reduced or terminated in accordance with this Master Agreement shall no longer be available to the Member.
- (b) **Optional Repayment.** All or any part of any Loan advanced in accordance with Section 2(b) may be repaid by the Member on [one] Business Day's notice to the Lender provided that the Risk Adjusted Capital of the Member (calculated after taking into account such repayment) is greater than zero.
- (c) **Mandatory Repayment.** All proceeds arising in connection with the sale or other disposition by the Member of securities which are the subject of a New Issue shall be immediately remitted or credited to the account of the Lender as repayment of the Loan in respect of such New Issue until such Loan and all amounts owing to the Lender in respect of the Loan have been paid in full.
- (d) **Restrictions on Repayment.** Except as provided under Sections 3(b) and (c) and Section 4, the Lender shall not be entitled to repayment, satisfaction or extinguishment in any manner of the Loan or any amount outstanding from time to time including, without limitation, by set-off, netting of any kind, reduction or compromise of debts, consolidation of accounts or similar basis, arising by agreement, by law or otherwise, which would be contrary to the intent of this Master Agreement and the SRO Rules that, except as provided herein, the Lender is to assume the financial risk associated with the portion of a New Issue funded by a Loan. Any payment or benefit received by the Lender contrary to this Section or Section 4 shall be held in trust for the Member and repaid or credited to it.
- (e) **Risk Adjusted Capital.** For the purposes of this Section 3 and the termination or repayment of all or any of a Loan Commitment or Loan on the basis of the Risk Adjusted Capital of the Member, the Member shall prepare and deliver to the Lender a certificate of the chief financial officer of the Member in the form of Schedule II hereto calculating the Risk Adjusted Capital (after taking into account the reduction, termination or repayment) at the relevant time. The Lender shall be entitled to rely on such certificate in accepting reduction,

- termination and/or repayment of the Loan Commitment or Loan unless within [xxxx] Business Days of the delivery of such certificate to the Lender, the SRO or the Member shall have advised the Lender that the calculation is not correct in which case the Loan Commitment or Loan shall not be reduced, terminated and/or repaid until a Risk Adjusted Capital calculation is approved by the SRO. The SRO shall be under no obligation to either review a certificate or to advise the Lender that a certificate may be incorrect, and the SRO shall incur no liability to the Lender arising from the receipt of the certificate.
4. (a) **Collateral.** As security for the repayment of each Loan advanced under a Loan Commitment, interest thereon and any other amounts owing to the Lender in respect of such Loan, the Member, concurrently with the making of the Loan by the Lender under the Loan Commitment, pledges, hypothecates, grants a security interest in and delivers to or to the account of the Lender the number of securities constituting the New Issue as set out in the Confirmation. The Lender shall release to the Member the number of securities constituting the Collateral as follows:
- (i) in circumstances where mandatory repayment of the Loan is required pursuant to Section 3(c), securities of the New Issue which are the subject of bona fide sales or dispositions by the Member and which are required to be delivered by the Member in connection with the sale or disposition, such release of securities to be in a time and manner that will permit the Member to settle its delivery obligations in accordance with SRO Rules and the conventions of the market in which the securities are to be sold;
 - (ii) in circumstances where the Member has made optional repayment of the Loan pursuant to Section 3(b), securities of the New Issue as agreed between the Member and the Lender; and
 - (iii) [xxxx].
- (b) **Custodian.** Where the Collateral is held by the Member with The Canadian Depository for Securities Limited or such other clearing agency or depository at which the Member and the Lender maintain accounts (a "Depository") directly or through nominee participants or agents, the pledging, assignment, hypothecation and granting of a security interest in the Collateral shall be made by way of an appropriate entry in the account of the Member and a corresponding entry in the Lender's account with the Depository. The Lender shall not be responsible for any delay, interruption or cessation of communication or data processing facilities whether used by the Lender or a Depository or any delay, error or omission of a Depository. The Lender may rely upon any instruction or information received from a Depository.
- (c) **Distributions.** Provided that the Member is not in default in accordance with Section 4(d), the Member shall be entitled to receive all distributions made on or in respect of the Collateral, including but not limited to stock dividends, interest and cash payments, the record dates for which are during the term of the Credit or during the term of possession of the Collateral by the Lender and which are not otherwise received by the Member, to the full extent it would be so entitled if the Collateral had not been delivered to the Lender.
- (d) **Default.** Upon a Default occurring in respect of the Member, the Lender shall be entitled and is hereby authorized to sell all or any of the Collateral in the respective principal markets for such Collateral and to apply the [net proceeds of such sale (after deducting from the gross proceeds all fees, commissions and all other reasonable costs, fees and expenses related to such sales)] (collectively, the "Lender's Proceeds") to satisfy all amounts due to the Lender hereunder in respect of the amount of Loan in default. If the Lender's Proceeds amount to less than the amounts due to the Lender under the Loan, the Member shall be liable to the Lender

for such difference until such amount is paid in full, subject to the provisions of Section 4(e). If the Lender's proceeds exceed the amount due to the Lender hereunder, such excess shall be returned by the Lender to the Member together with any Collateral remaining.

- (e) **Limitation on Recourse.** At any time when the Risk Adjusted Capital of the Member (calculated after taking into account any amount owing by the Member to the Lender in respect of the particular Loan in respect of which recourse is sought) is less than zero, the Lender shall not be entitled to seek recourse in respect of a Loan against the assets, property or undertaking of the Member in any forum or by any means (including, without limitation, by execution, garnishment, realization, claim in bankruptcy, set-off, netting of any kind, reduction or compromise of debts, consolidation of accounts or any similar basis) other than exercising its rights in respect of the Collateral for the Loan in accordance with this Section 4 or in respect of any Collateral for any other Loan to the Member made pursuant to the terms of this Master Agreement and a Confirmation.
- (f) **Property Separate and Transferable.** All Collateral shall be held by the Lender in segregation separate from the assets of the Lender and identified as the property of the Member. Except as expressly provided for in this Master Agreement, the Lender may not sell, assign, pledge, hypothecate or otherwise deal with the Collateral. All Collateral and loaned money, securities or property shall be free and clear of any trading restrictions and duly endorsed for transfer or be otherwise transferable.

- 5. **Notice.** Any notice or communication hereunder which is given in writing may be effectively given by delivering the same or transmission by facsimile or other electronic means which can be recorded and retrieved, to the Member as follows:

xxxx

and to the Lender as follows:

xxxx

and to the SRO as follows:

xxxx

or to such address as any of the parties or the SRO shall have specified by notice given to the other of them including by Confirmation. Any such notice or communication if received prior to 2:00 p.m. (local time) on a Business Day shall be deemed to be given on such Business Day, and if received on or after 2:00 p.m. on a Business Day, shall be deemed to be given on the next following Business Day.

- 6. **Enurement.** This Master Agreement, each Confirmation and the Schedules hereto shall extend to and enure to the benefit of and be binding upon the successors and assigns of any of the parties hereto including, in the case of successors, any firm or corporation which succeeds to all or part of the business of a party.
- 7. **Assignment.** This Master Agreement and any Confirmation shall not be assigned at any time by any party hereto without the written consent of the other party first had and received.
- 8. **SRO.** The parties declare that the benefit of their respective covenants under this Master Agreement or any Confirmation are held by them in trust for the SRO in its own behalf and on behalf of clients of the Member and acknowledge that the SRO may enforce such covenants directly against each of them, as the case may be, as if entered into by the SRO or such clients themselves. The SRO shall be under no obligation or responsibility of any kind or character or to any Member, client or person claiming through them in respect of this Master Agreement and, in

ATTACHMENT #3

particular, shall have no obligation, responsibility or duty to see that any covenant is carried out or fulfilled or to take any action for the enforcement of this Master Agreement or any Confirmation.

- 9. **Entire Agreement.** The parties hereto acknowledge and agree that this Master Agreement and the Schedules hereto contain, save as expressly herein or in a Confirmation otherwise referred to, the entire agreement between the parties and that there are no other terms and conditions to the Master Agreement and the Schedules.
- 10. **Governing Law.** This Master Agreement and each Confirmation shall be governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.
- 11. **English Language.** This agreement has been drawn up in the English language at the request of the parties. Les parties ont requis que la presente convention soit redigee en anglais.

EXECUTED AND DELIVERED BY

[Member]

By: _____

By: _____

[Lender]

By: _____

By: _____

**SCHEDULE I TO
NEW ISSUE LOAN MASTER AGREEMENT**

Form of Confirmation
[Letterhead of Lender]

Date: [xxxx xx, 20xx]

[Name and Address of Member]

Dear Sirs:

Re: Loan for [identify new issue] ("New Issue")

This letter is to confirm the terms and conditions on which the undersigned Lender agrees to make available to you as Member a cash loan (the "Loan") in respect of your participation in the securities underwriting identified above. The Loan is provided pursuant to the provisions of a New Issue Loan Master Agreement dated [xxxx xx, 20xx] ("Master Agreement") made between you and us and this letter is a Confirmation for the purposes of the Master Agreement and together the Master Agreement and the Confirmation constitute one agreement. The terms and conditions of the Master Agreement including, without limitation, the definitions therein shall govern the Loan. In the event of any inconsistency between this Confirmation and the Master Agreement, the terms of the Master Agreement will govern.

Accordingly, the Lender agrees to advance to the Member the Loan as follows:

Amount of Loan: [Cdn. \$xxx]
Purpose: to be applied to meet underwriting obligations of the Member in respect of the New Issue.
Advance Date: [usually New Issue closing/settlement date]
Availment: [cash advance]
Interest, Fees and Expenses: [to be described]
Collateral: [number and description of securities of New Issue to be pledged to Lender on Settlement Date]
Loan Value: [xx.xx%]
Account Details: [payment instructions etc.]
Details of Master Agreements entered into with other Lenders: [xxxx]

Please confirm that the foregoing correctly sets out the terms of our agreement and your acceptance of such terms by executing the duplicate copy of this Confirmation and returning it to us.

Yours very truly,

[Lender]

By: _____

By: _____

CONFIRMED AND ACCEPTED this xx day of xxxx, 20xx

[Member]

By: _____

By: _____

**SCHEDULE II TO
NEW ISSUE LOAN MASTER AGREEMENT**

Member Officer's Certificate

Date: [xxxx xx, 20xx]

[Name and Address of Lender]

Dear Sirs:

Re: Loan pursuant to Confirmation dated ("Confirmation") and New Issue Loan Master Agreement ("Agreement") - [Identify new issue]

In connection with the repayment of funds and/or termination or reduction of [all or specify amount] the Loan or Loan Commitment pursuant to the Agreement and Confirmation referred to above, the undersigned certifies that to the best of his\her knowledge the Risk Adjusted Capital for the purposes of the Agreement and Confirmation is as at the date hereof not less than the amount set out below.

Risk Adjusted Capital

Cdn. \$xxx

Yours truly,

By: _____
[Chief Financial Officer]