

RULE 2000
SEGREGATION REQUIREMENTS

Acceptable External Locations

2000.1. For the purposes of Rule 17.3 and Rule 17.3A, securities held beyond the physical possession of the Dealer Member may be segregated and held in trust for customers of a Dealer Member, or segregated and held by or for a Dealer Member, as the case may be, in acceptable securities locations, provided that the written terms upon which such securities are deposited and held beyond the physical possession of the Dealer Member include provisions to the effect that

- (a) No use or disposition of the securities shall be made without the prior written consent of the Dealer Member;
- (b) Certificates representing the securities can be delivered to the Dealer Member promptly on demand or, where certificates are not available and the securities are represented by book entry at the location, the securities can be transferred either from the location or to another person at the location promptly on demand; and
- (c) The securities are held in segregation for the Dealer Member or its customers free and clear of any charge, lien, claim or encumbrance of any kind in favour of the depository or institution holding such securities.

Acceptable Internal Locations

2000.2. For the purposes of Rules 17.3 and 17.3A, the securities held within the physical possession or control of the Dealer Member may be segregated and held in trust for clients of the Dealer Member, or segregated and held by or for the Dealer Member, as the case may be, in the following prescribed locations:

(a) Internal Storage

All internal storage locations designated in the Dealer Member's ledger of accounts for which adequate internal accounting controls and systems for safeguarding of securities held for clients are maintained and which reflect unencumbered security positions in the possession and control of the Dealer Member.

All securities in transit between internal storage locations, for which adequate internal controls are maintained, provided that securities in transit for more than five (5) business days may not be considered as being in the possession and control of a Dealer Member for purposes of segregation.

(b) Transfer Locations

All securities which are in the process of being transferred by a registered or recognized transfer agent.

If such securities are with transfer agents in Canada and have not been received within twenty (20) business days of delivery, the Dealer Member shall obtain a confirmation of the position receivable from the transfer agent. If such position remains unconfirmed after forty-five (45) business days of delivery, the Dealer Member must transfer the position to its difference account.

If such securities are with transfer agents in the United States, the Dealer Member must confirm the receivable after forty-five (45) business days of delivery and transfer the position to its difference account after seventy (70) business days of delivery if the position has not been confirmed. If such securities are with transfer agents outside

Canada and the United States, the Dealer Member must confirm the receivable after seventy (70) business days of delivery and transfer the position to its difference account after one hundred (100) business days of delivery if the position has not been confirmed.

If the positions represented by such securities are required to be transferred to the Dealer Member's difference account, such securities shall not be considered to be in the possession and control of the Dealer Member for the purposes of segregation.

Non-Negotiable Securities

2000.3. Securities which are restricted or which are non-negotiable or which cannot be made fully negotiable solely by signature or guarantee of the Dealer Member shall be deemed not to be segregated unless such securities are registered in the name of the client (or the name of a person required by the client) on whose behalf they are being held in an acceptable segregation location.

Bulk Segregation Calculation

2000.4.

- (a) A Dealer Member, which holds securities of clients in bulk segregation in accordance with Rule 17.3, shall determine, for all accounts of each client, the following amounts:
- (i) The quantity of all securities held for such accounts which are part of a qualifying hedge position;
 - (ii) The net loan value of all securities held for such accounts, other than securities referred to in subparagraph (i), minus (or plus in the case of a credit) the aggregate debit cash balance in the accounts; and
 - (iii) The market value of all securities, other than securities referred to in subparagraph (i), not eligible for margin under Rule 100 minus the aggregate amount, if any, by which such accounts are under-margined as calculated in subparagraph (ii).

Amounts defined in subparagraphs (ii) and (iii) shall represent the net loan value or market value, as the case may be, of securities required to be segregated by the Dealer Member in respect of such accounts. The amount of securities required to be segregated by a Dealer Member shall not, in any case, be greater than the market value of the securities held for such accounts.

- (b) For the purposes of this Rule 2000.4, net loan value of a security means, in respect of:
- (i) A long position, the market value of the security less any margin required;
 - (ii) A short position, the market value of the security plus any margin required expressed as a negative number; and
 - (iii) A short security option position, any margin required as a negative number.
- (c) For the purposes of this Rule 2000.4, a qualifying hedge position means, for all the accounts of each client:
- (i) A long position in a security; and
 - (ii) A short position in a security issued or guaranteed by the same issuer of the security referred to in subparagraph (i);
where
 - (iii) The long position is convertible or exchangeable to the securities of the same class and number of the securities held in the short position; and

- (iv) The Dealer Member is using the long position as collateral to cover the short position.

2000.5. A Dealer Member may satisfy its obligations to segregate client securities under Rule 17.3 by segregating in bulk for all clients the number of securities determined as follows:

(a) Equity securities

The aggregate loan value and market value of each class or series of security required to be segregated for each client as determined under Rule 2000.4 divided by the loan or market value, as the case may be, of one unit of the security, shall be the number of such securities required to be segregated.

(b) Debt securities

The aggregate loan value and market value of each class or series of security required to be segregated for each client as determined under Rule 2000.4 divided by the loan or market value, as the case may be, of each \$100 of principal amount of the security, multiplied by 100 and rounded to the lowest issuable denomination, shall be the principal amount of such securities required to be segregated.

In determining which securities shall be used to satisfy the segregation requirements in respect of each such client's positions, the Dealer Member may select among all of the securities carried for the client's accounts, subject to the restrictions of any applicable securities legislation including, without limitation, a requirement that fully-paid securities in a cash account be segregated before unpaid securities.

Securities which are required to be segregated but which have been sold by the Dealer Member on behalf of a client shall remain segregated until one business day prior to settlement or value date. Securities which are required to be segregated for a client shall not be removed from segregation as a result of the purchase of any securities by such client until settlement or value date.

Frequency and Review of Calculation

2000.6. A Dealer Member shall determine at least twice weekly the securities required to be segregated according to the calculations set out in Rules 2000.4 and 2000.5.

2000.7. Each Dealer Member shall review on a daily basis compliance with its segregation requirements for its clients' securities according to the latest determination of such securities pursuant to Rule 2000.6 with a view to identifying any deficiency in securities required to be segregated and correcting any such deficiency.

General Restrictions

2000.8. In complying with its obligation to segregate client securities in accordance with Rules 17.3 and 2000, each Dealer Member shall ensure that:

- (a) A segregation deficiency is not knowingly created or increased;
- (b) No securities held by the Dealer Member are delivered against payment for the account of any client if such securities are required to satisfy the segregation requirements of the Dealer Member in respect of any client;
- (c) All free securities (i.e. fully paid and unencumbered securities which have not been sold or are not required for margin) received by the Dealer Member shall be segregated.

Correction of Segregation Deficiencies

2000.9. In the event that a segregation deficiency exists, including (without limitation) deficiencies arising in the circumstances listed below, the Dealer Member shall expeditiously take the most appropriate action required to settle the segregation deficiency.

Call loans:

The Dealer Member shall take action to recall such securities within the business day following the determination of the deficiency.

Securities loans:

The Dealer Member shall call for the return of such securities from the borrower within the business day following the determination of the deficiency or shall borrow securities of the same issue to cover the deficiency and should such securities not have been received by the Dealer Member within five (5) business days following the determination of the deficiency, the Dealer Member shall undertake to buy-in the borrower.

Inventory or Trading Account Short Positions:

The Dealer Member shall borrow securities of the same issue to cover the deficiency within the business day following the determination of the deficiency or shall undertake to purchase the securities immediately.

Client Declared Short Sales:

The Dealer Member shall borrow securities of the same issue to cover the deficiency within the business day following the determination of the deficiency or shall undertake to buy-in the securities within five (5) business days.

Fails - Client, Dealer Members, Acceptable Institutions or Acceptable Counterparties:

If such securities have not been received by the Dealer Member within fifteen (15) business days of the settlement date, the Dealer Member shall borrow securities of the same issue to cover the deficiency or shall undertake to buy-in the securities.

Stock Dividends Receivable and Stock Splits:

If such securities have not been collected within forty-five (45) business days of the date receivable, the Dealer Member shall obtain a written confirmation of the position receivable. If such position remains unconfirmed after the aforementioned forty-five (45) business days, the Dealer Member must transfer the position to its difference account.

Difference Accounts:

Each Dealer Member shall maintain a difference or suspense account in which shall be recorded all securities which have not been received by reason of irreconcilable differences or errors in any accounts. If securities recorded in a difference account have not been obtained by the Dealer Member within thirty (30) business days of the deficiency being recorded, the Dealer Member shall borrow securities of the same class or series to cover the deficiency or shall undertake to purchase the securities immediately.

