

I nformation Circular

**Regarding the Special Meeting
of IDA Member firms to consider
the proposed combination of the
Association and Market Regulation
Services Inc. in a new self-
regulatory organization**

November 15, 2007



**INVESTMENT DEALERS
ASSOCIATION OF CANADA**

ABOUT THIS INFORMATION CIRCULAR

This Information Circular has been prepared by and is being furnished to you by the Investment Dealers Association of Canada (the “IDA”) in connection with the Special Meeting of Members to be held on Monday, December 17, 2007 at 11:00 a.m. (Toronto time) at the British Columbia Room, Fairmont Royal York Hotel, Toronto.

The purpose of this Information Circular is to provide Members with information regarding the proposed combination of the IDA and Market Regulation Services Inc. (“RS”) in a new self-regulatory organization provisionally called New Regco and in order to assist you in voting at the Meeting. At the meeting, Members of the IDA will be asked to consider and, if acceptable, pass certain resolutions approving the transaction with RS and related matters (together the “Combination Resolutions”). This Information Circular, the accompanying Notice of the Meeting dated November 15, 2007 (the “Notice of Meeting”) and form of Proxy include copies of, among other things,

- the Combination Resolution (attached as Schedule 1 to this Information Circular);
- the Combination Agreement (attached as Schedule 2 to this Information Circular); and
- the draft Letters Patent and draft By-Law No. 1 of New Regco (attached as Schedule 3 to this Information Circular).

This Information Circular contains summaries of the principal terms of certain of these and other documents. For a complete description of the rights and obligations of the parties in respect of the transaction, please refer to the actual documents, copies of which are attached as schedules to this Information Circular which accompanies the Notice of Meeting.

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SCHEDULE 1 Combination Resolution

SCHEDULE 2 Combination Agreement

SCHEDULE 3 Letters Patent and By-Law No. 1

SCHEDULE 4 Initial Directors of New Regco

SCHEDULE 5 Summary of Member Survey

November 15, 2007

Letter from the Chair and President

Dear Member:

We are pleased to present this Information Circular and related materials for consideration by you prior to the IDA's Special Meeting of Members to be held on December 17, 2007.

We are asking you to vote on a proposal to combine the IDA and Market Regulation Services Inc. ("RS") in a new self-regulatory organization, provisionally called New Regco, which will acquire/assume the assets, liabilities and regulatory responsibilities of the IDA and RS.

This is an important and changing time for securities regulation in Canada and elsewhere in the world. The IDA and RS wish to be leaders in establishing a self-regulatory organization for Canada that reflects the best and most effective standards of regulation. The proposal for New Regco is intended to reflect such standards for the benefit of the public, Members and Canada's capital markets.

The design of New Regco and its implementation have undergone rigorous scrutiny over the course of many months. In addition, an independent and confidential survey of representative Members of the cost and benefits of the proposed combination of the IDA and RS has been conducted. A summary of the results of this survey is included in Schedule 5 to this Information Circular. We are pleased to report that:

- Members responding to the survey "unanimously believe the merger will yield benefits", and
- the only significant disadvantages of the merger cited by some Members were transitional and implementation issues.

The Board of Directors of the IDA remains confident that the proposed combination will create an effective and efficient integrated industry self-regulator for Members that will best serve the public interest and Canada's capital markets.

The proposed combination of the IDA and RS complements other recent developments, including the split of the IDA's former mandate to separate the self-regulatory role from the trade association advocacy and other member activities now conducted by the Investment Industry Association of Canada ("IIAC"); the continuing emergence of new marketplaces in Canada; and continuous efforts to improve the self-regulatory infrastructure both in Canada and internationally. While the Board and the management of the IDA and RS recognize that combining the two organizations does not, in itself, address all of the challenges both organizations face, we view the step as fundamental to ensuring strong, streamlined, expert self-regulation in Canadian capital markets.

It has been our honour to serve Members of the IDA during these historic developments and we thank each of you for your time, consideration and input throughout this process. We are grateful for the leadership and guidance of the other members of the joint Steering Group (Don Black, Eric Kirzner, Bill Moriarty, Brian Porter and Gerry Rocchi). Likewise we would be remiss if we did not also acknowledge the extraordinary efforts of IDA and RS staff and Board members in bringing us to this decision point.



Ronald S. Lloyd, Chair
Board of Directors



Susan Wolburgh Jenah
President and Chief Executive Officer

1. EXECUTIVE SUMMARY

The Board of Directors of the IDA and the Board of Directors of RS have agreed, subject to the approval of the Members of the IDA, the shareholders of RS and the Canadian Securities Administrators (“CSA”), to create a new self-regulatory organization (“SRO”) provisionally called New Regco. The new SRO will combine the regulatory activities of each of the IDA and RS in a single organization.

Current Organization. All investment dealers in Canada are Members of the IDA. The IDA approves and registers investment dealers and certain of their personnel. It regulates their business conduct, sales practices and financial adequacy in accordance with its By-laws, Regulations, Policies and other regulatory instruments. There are currently 212 IDA Members who are investment dealers (required by securities legislation to be members of an SRO).

RS regulates the trading conduct of those IDA Members and other institutions and individuals that participate directly in a Canadian equity marketplace for which RS is the regulation services provider (“RSP”) pursuant to a regulation services agreement (“RSA”) as a member of an exchange, a user of a quotation and trade reporting system (“QTRS”) or a subscriber to an alternative trading system (“ATS”). There are no QTRSs in operation at present. Trading on marketplaces for which RS acts as RSP (“Regulated Markets”) is subject to rules administered and enforced by RS called the Universal Market Integrity Rules (“UMIR”), a common set of equity trading rules designed to ensure fairness and maintain investor confidence. There are 7 Marketplace Members consisting of the Regulated Markets currently in operation that have engaged RS as their RSP. 120 Members are subject to RS jurisdiction because they are members and/or subscribers of one or more Regulated Markets. Each ATS is also an IDA Member.

New Organization. New Regco will be a non-share capital corporation and will have two classes of members, being Dealer Members and Marketplace Members. Dealer Members and Marketplace Members will have the same rights and entitlements, subject to legal requirements. Each member of New Regco will have one vote.

New Regco will regulate Dealer Members in a manner similar to the IDA’s current regulation. New Regco will also regulate the trading conduct of the members and subscribers that participate directly in its Marketplace Members. All Members will remain subject to oversight and regulation by the CSA. New Regco will monitor the conduct and trading activities of Regulated Markets that are ATSS.

Board of Directors. The Board of New Regco will consist of 15 directors: 5 directors representing the Dealer Members, 2 directors representing the Marketplace Members, 7 independent directors and the CEO. The initial directors are listed on Schedule 4 to this Information Circular.

Objective. The objective of combining the IDA and RS is to create a single, independent self-regulatory organization with broader scope and the requisite capacity to regulate markets and market participants (dealers and others) and inform and be responsive in a timely and

effective manner to rapidly evolving market developments. This will be achieved by simplifying, streamlining and consolidating market and dealer regulation within a single independent entity with a view to enhancing the quality and effectiveness of the self-regulatory system, thereby maintaining fair, efficient and transparent markets and enhancing investor protection.

The combined organization is being designed to specifically ensure broad policy input and timely, responsive and cost-effective regulatory initiatives and a stronger SRO that is positioned to assume, over time, additional functionalities and responsibilities, for the benefit of all market participants.

These general objectives reflect the unanimous endorsement of the Members responding to a survey on the proposed combination (a summary of which is attached as Schedule 5) conducted on behalf of the IDA by an independent organization. The survey of Members confirmed that significant cost savings in either Member or SRO operations were not expected as a result of the merger. Indeed, significant cost savings are not expected. The only significant disadvantages of the combination cited in the survey were transitional and implementation issues.

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This Information Circular is provided to Members to assist them in deciding whether to support resolutions to be passed at a special Meeting in respect of proposed amendments to the IDA Constitution providing for the IDA to transfer its assets and liabilities to New Regco in order to effect a combination of its regulatory activities with RS. This proposal must be approved by an affirmative vote of at least $\frac{3}{4}$ of the votes cast by IDA Members present at the meeting in person or by proxy.

2. THE COMBINATION

2.1 Background

In early 2006, the Boards of Directors of RS and the IDA established a joint Steering Group, to determine whether and on what basis to recommend to the respective Boards a combination of the two organizations. On April 26, 2006, the Steering Group presented its recommendations. The Steering Group was authorized to proceed to develop detailed implementation plans, for submission to the Boards and, if approved, to IDA Members, as well as to RS's shareholders (being the IDA as to 50% and TSX Inc. ("TSX") as to 50%) and to the CSA.

The Steering Group established four joint staff task forces (legal, organizational, finance and human resources) to consider and make recommendations relating to various aspects of implementing a combination. In addition, it retained outside experts to assist in recruiting a CEO, addressing various human resources issues and providing advice on legal matters.

Effective February 19, 2007, Ms. Susan Wolburgh Jenah was appointed the President and Chief Executive Officer designate for the new organization, and effective July 1, 2007, she

became the President and Chief Executive Officer of the IDA. The CEO designate and the Transitional Management Team established by Ms. Wolburgh Jenah in March 2007 have worked intensively over many months with the support and guidance of the Steering Group, culminating in the recommendations described in this Information Circular. The development of these recommendations included informal consultations with IDA Members, the Regulated Markets, CSA members and other interested parties.

At a joint meeting of the Boards of the IDA and RS held May 25, 2007, the objectives and desirability of the combination were unanimously confirmed and approved in principle, subject to a determination of certain implementation matters, structural features and regulatory requirements.

2.2 Rationale

The combination of the IDA and RS is intended to simplify, streamline and consolidate the self-regulatory system while enhancing its quality and effectiveness, enhancing investor protection, maintaining fair, efficient and transparent markets and reducing risk to the Canadian financial system. The IDA and RS believe that the proposed combination will permit a more effective allocation of regulatory resources and improve the performance of self-regulation for the benefit of Canadian capital markets overall.

2.3 Key Impacts of Combination

Benefits. The objective of combining the IDA and RS is to create a single, independent self-regulatory organization with broader scope and the requisite capacity to regulate markets and market participants (dealers and others) and inform and be responsive in a timely and effective manner to rapidly evolving market developments. This will be achieved by simplifying, streamlining and consolidating market and dealer regulation within a single independent entity with a view to enhancing the quality and effectiveness of the self-regulatory system, thereby maintaining fair, efficient and transparent markets and enhancing investor protection.

The combined organization is being designed to specifically ensure broad policy input and timely, responsive and cost-effective regulatory initiatives and a stronger SRO that is positioned to assume, over time, additional functionalities and responsibilities, for the benefit of all market participants.

The IDA and RS believe that the proposed combination will permit a more effective allocation of regulatory resources and improve the performance of self-regulation. Specific advantages arising from the proposed combination should include:

- Elimination of potential regulatory gaps arising from member regulation and market regulation being currently conducted as separate activities by two entities;
- The broader application of risk management principles in determining priorities and allocation of resources, thus facilitating more cost-effective regulation;

- The supervision, within one organization, of a broader spectrum of trading activity, products and markets (including equities, certain derivatives, fixed income and other OTC trading) which will facilitate the identification of trends and risks and the development of appropriate regulatory responses;
- A single interface for members and investors on regulatory issues;
- Reduced investor confusion by enhancing visibility and clarifying the scope and purpose of self-regulation;
- Deeper and broader capacity, with the ability to attract and retain the best talent;
- Adoption of uniform principles of regulation in the face of rapid convergence;
- Reinforcement of the differentiation of the regulatory from advocacy functions within the industry; and
- A more efficient allocation of regulatory resources and responsibilities between the self-regulatory organizations and the CSA.

Operating Costs. While cost saving is not the primary objective, considerable analysis has been conducted in respect of the costs and benefits of combining the IDA and RS. The impact on operational costs following the combination will be limited.

With respect to Member operating costs, the analysis conducted and the results of the Member survey (a summary of which is contained in Schedule 5) confirm that few tangible or direct cost savings or efficiencies will be realized by Members, particularly at the outset. This is a result of the fact that member regulation conducted by the IDA and market regulation by RS are separate functions which will continue to be performed by New Regco resulting in minimal overlap in resources.

Transition Costs. There have been and will be significant one-time integration costs arising from transitional and implementation matters. This was the main disadvantage to the combination identified by Members in the survey. Transitional costs will not be reflected in fee increases. The Board of Directors of each of the IDA and RS have determined that it is in the public interest that these costs should be funded on a shared basis by the IDA and RS in the proportions of 60% and 40%, respectively, from each of their discretionary/restricted funds, applying the criteria governing such determination by the two Boards.

2.4 Approvals Required

IDA. Pursuant to the IDA's Constitution, the Board of Directors of the IDA has approved amendments to the IDA Constitution providing for the IDA to (i) transfer its assets and liabilities to New Regco in order to effect a combination with RS, (ii) provide for the transfer of membership and jurisdiction to New Regco, (iii) amend and delete the appropriate provisions of the Constitution, (iv) eventually terminate and wind up the IDA, and (v) deal

with such other matters as are required to effect the combination and the administration of the IDA. The amendments to the Constitution reflected in the Combination Resolution must be approved by Members at the meeting by an affirmative vote of at least $\frac{3}{4}$ of the votes cast. Such approval is conditional on the other necessary aspects of the combination being completed such as receipt of recognition orders from the CSA for New Regco, all in form and substance satisfactory to the IDA Board. The IDA Board also has the discretion to withdraw the resolution if, in its view, it would be in the best interests of the IDA Members to do so.

RS. Pursuant to RS's articles, by-laws and shareholders' agreement, the RS Board and its shareholders (consisting of the IDA and TSX) are required to approve resolutions providing for RS (i) to transfer its assets and liabilities to New Regco in order to effect a combination with the IDA, (ii) to provide for the transfer of membership and jurisdiction to New Regco, (iii) to eventually terminate and wind up RS, and (iv) to deal with such other matters as are required to effect the combination and the administration of RS. Such approval is conditional on the other necessary aspects of the combination being completed such as receipt of recognition orders from the CSA for New Regco, all in form and substance satisfactory to the RS Board. The RS Board also has the discretion to withdraw its resolution if, in its view, it would be in the best interests of RS to do so.

CSA. Recognition orders to confirm New Regco's status as a recognized SRO are being sought from provincial securities regulators in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia and Newfoundland and Labrador (the legislation of Prince Edward Island, the Yukon, the Northwest Territories and Nunavut does not currently provide for recognition of SROs). In addition, to the extent that provincial securities regulators have issued orders or delegated authority to the IDA or RS in respect of the registration of Members or approved persons in the relevant jurisdictions, similar orders and delegated authority will be sought for New Regco. Existing orders or delegations that are to remain in effect for either the IDA and RS following the establishment of New Regco will also be amended as required.

2.5 Jurisdiction of IDA and New Regco over IDA Members

If the Combination Resolution and other matters referred to in the preceding Section 2.4 are approved and the necessary conditions satisfied for the combination to become effective, each IDA Member will become a member of New Regco unless the Member chooses to resign from the IDA and not continue as a securities dealer required by provincial legislation to be a member of a recognized SRO. Members will be required to confirm their membership in New Regco and attorn to its jurisdiction by an expedited membership application process including a written form of attornment and acknowledgement as to the terms of their membership. Approved persons in respect of Members will become subject to the jurisdiction of New Regco without further action on their part. As described herein including in Section 6.2 Enforcement, the IDA will continue in existence for a period of time (expected to be five years) with respect to enforcement actions, if necessary, in respect of Members and their approved persons.

3. OVERVIEW OF THE IDA

History. The IDA is an unincorporated association of its Members which are firms carrying on business in Canada as investment dealers. There are currently 212 IDA Members.

The IDA was founded in 1916 as the Bond Dealers Section of the Toronto Board of Trade and over the years developed into a strong industry association and Canada's sole national SRO for investment dealers. Its role has long been acknowledged and reflected in the securities legislation of most of the provinces and territories of Canada. The IDA has also participated in the regulation of Canada's fixed income markets and in that connection has worked closely with the Department of Finance (Canada) and the Bank of Canada.

Provincial regulation. Investment dealers are required by provincial securities law to be members of an SRO recognized under such law. The IDA's status as an SRO has been formally recognized by provincial securities regulators in Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, Ontario, Saskatchewan, and Québec through the issuance of recognition orders (the "IDA Recognition Orders") under their respective provincial securities legislation and has made application for similar recognition by the New Brunswick Securities Commission.

Trade association split. Since the formation in April 2006 of the Investment Industry Association of Canada as a separate organization carrying on the trade association advocacy and member activities formerly conducted by the IDA (as referred to below), the sole function of the IDA has been the regulation of IDA Members and their partners, directors, officers and employees.

IDA Rules. The IDA has by-laws, regulations, rules, policies and other regulatory instruments (the "IDA Rules") which set standards of business conduct for IDA Members and their partners, directors, officers and employees as approved persons. These standards are intended to serve the public interest and the interests of the capital markets, as well as IDA members collectively and their clients. The IDA Rules impose capital adequacy requirements, business conduct, sales practices and market conduct rules. IDA Members have contractually agreed to comply with the IDA Rules. In accordance with its objectives, and in compliance with requirements imposed by the IDA Recognition Orders, the IDA monitors and enforces compliance with the IDA Rules. In addition, the member services department of the IDA provides ongoing regulatory knowledge transfer services with respect to, among other things, compliance by Members with IDA Rules and applicable legislation.

Statutory authority. The IDA has been delegated or assigned authority for certain registration matters relating to its Members and their approved persons under the securities legislation in the provinces of British Columbia, Alberta, Ontario and Quebec. In addition, and in accordance with IDA Rules, the IDA approves all Member firms and individuals acting on their behalf and sets proficiency and education requirements for such individuals.

Regulatory agreements. The IDA has entered into regulatory agreements and arrangements with other regulatory authorities, SROs and law enforcement agencies in Canada and abroad,

and is also the sole SRO whose Members are covered by the Canadian Investor Protection Fund.

Locations. The IDA operates out of four offices located in Vancouver, Calgary, Toronto and Montreal. At the present time it has a staff complement of 300.

Revenues. The IDA has an annual operating budget of approximately \$48 million for the fiscal year ending March 31, 2008. With the exception of cost recoveries (but not fines) from enforcement actions, the IDA's operating costs are funded by an annual membership fee, levies on underwriting activity, registration fees and interest income. The IDA also receives revenues in the form of fines, disgorgements of profits and other penalties or remedies imposed on IDA Members and their employees, officers and directors arising from enforcement actions in respect of the IDA Rules. Fine and penalty revenues are not used to fund general operating costs of the IDA, but rather are maintained in a separate fund (the "IDA Discretionary Fund") and used for the purposes prescribed by the IDA Rules, which include funding the costs of conducting hearings and covering the cost of special projects that benefit the public or the Canadian capital markets generally.

Excluding amounts accruing to the IDA Discretionary Fund, the IDA operates on a cost-recovery basis, adjusting its annual membership fees to ensure that it does not accumulate funds in excess of its working capital requirements. The IDA maintains a working capital balance in cash or near-cash assets in an amount equal to approximately three months operating expenses.

Assets. The IDA's main assets consist of its working capital balance, the balance of \$34.9 million in the IDA Discretionary Fund and \$14.25 million in the Members' Fee Reduction Fund (both as of March 31, 2007), 50% of the common shares of RS, 10% of the common shares of FundSERV Inc. ("FundSERV", a corporation created as a communications service for the investment fund industry) and 15.2% of the common shares of The Canadian Depository for Securities Limited ("CDS", a corporation which owns, among other things, Canada's national depository and clearing house for the securities industry).

CDS and FundSERV. Under New Regco, decisions with respect to voting, use or disposition of the shares of either FundSERV or CDS, or the application of any proceeds therefrom, will remain solely with the directors of New Regco representing Dealer Members.

IIAC. In 2005, the IDA Board and Members approved the creation of a separate and independent trade association – the Investment Industry Association of Canada ("IIAC") effective April 1, 2006 to carry on such activities formerly conducted by the IDA. IIAC was funded in part by a transfer by the IDA of approximately \$28 million, representing a portion of the proceeds of the sale by the IDA in 2006 of CSI Global Education Inc.

Material Contracts. The IDA is a party to the material contracts with CSI Global Education Inc. and with IIAC described in Section 7.2 "Continuing Obligations".

Non-taxable. The IDA is a non-profit organization that, pursuant to paragraph 149(1)(l) of the *Income Tax Act*, is exempt from tax.

4. OVERVIEW OF RS

History. RS was created as an independent and neutral body to monitor and enforce compliance with trading rules on Canadian equity marketplaces including exchanges, QTRSs and ATSs. RS commenced operations in March 2002.

RS was incorporated under the *Canada Business Corporations Act* on September 21, 2001. The two shareholders of RS are the IDA and TSX, each of which holds 500 common shares. RS, the IDA and TSX are parties to an amended shareholders' agreement dated as of March 1, 2002 setting forth the respective rights and obligations of the parties. Like the IDA, RS is a non-profit organization that, pursuant to paragraph 149(1)(l) of the *Income Tax Act*, is exempt from tax. In accordance with the by-laws of RS, each ATS that has retained RS as its RSP is a member of RS and entitled to participate in the policy advisory process and to make nominations for the board of directors and the hearing committee.

Provincial regulation. RS has been recognized as an SRO by the provincial securities regulators in British Columbia, Alberta, Manitoba, Ontario and Quebec through the issuance of recognition orders under their respective provincial securities legislation. The operations of RS are overseen by these regulators in accordance with an oversight agreement between them. As an SRO, RS functions as an RSP in accordance with National Instrument 21-101 – *Marketplace Operation* and National Instrument 23-101 – *Trading Rules* (together, the “ATS Rules”).

Marketplace regulation. In accordance with the ATS Rules, a marketplace that is a recognized exchange or a recognized QTRS may engage an RSP to monitor the trading conduct of its members or users and their compliance with the ATS Rules, and a marketplace that is an ATS must engage an RSP to monitor the trading conduct its subscribers and their compliance with the ATS Rules.

Currently, the marketplaces in operation for which RS acts as the RSP are: the Toronto Stock Exchange, TSX Venture Exchange and Canadian Trading and Quotation System Inc. (“CNQ”, including its Pure Trading facility), each as an exchange; and for Bloomberg Tradebook Canada Company, Liquidnet Canada Inc., Perimeter Markets Inc. (the operator of BlockBook) and TriAct Canada Marketplace LP, each as an ATS.

Under the ATS Rules and its RSAs, RS has jurisdiction over the trading conduct of members of an exchange and subscribers of an ATS. In April 2007, the provincial securities commissions in British Columbia, Alberta, Manitoba, Ontario and Quebec (the "Recognized Regulators") and RS published for comment a proposal to amend the ATS Rules and UMIR to extend RS's jurisdiction to include the trading conduct of individuals and firms who are provided with dealer-sponsored direct access to an exchange or ATS (other than pursuant to order execution accounts) without themselves being members of the exchange or subscribers to an ATS. These proposed amendments were open for public comment until July 2007.

RS monitors the conduct and trading activities of Regulated Markets that are ATSs. In addition, an ATS must be a member of the IDA and as such its senior management, business model, systems and supervision structure must be acceptable to the IDA.

The current term of the RSA with each of TSX and TSX Venture Exchange expires on March 1, 2008. RS is presently negotiating a new RSA with each of TSX and TSX Venture Exchange that will take effect upon the effective date of the combination and replace the existing RSA with RS. Under these RSAs, New Regco will become the RSP for TSX and TSX Venture Exchange. The terms of these new RSAs will be consistent with the terms of the existing agreements but will contain additional terms relating to any other material elements of the relationship between New Regco and TSX (described in this Information Circular) that are to be reflected in the RSA in respect of New Regco. RS will, effective on the date of the combination, assign to New Regco the RSAs for the other Regulated Markets.

UMIR. RS is responsible for the development, amendment, interpretation, administration and enforcement of UMIR, subject to oversight by the Recognizing Regulators. RS monitors trading on each of the Regulated Markets on a real-time and post-trade basis. RS also conducts periodic reviews of the trading records, policies and procedures of IDA Members who are members of an exchange or subscribers to an ATS to assess their compliance with the ATS Rules and UMIR. When RS identifies breaches of UMIR through its surveillance activities or trade desk reviews, it investigates and has the power to cause trades to be cancelled or varied, to take disciplinary action against firms and individuals subject to its jurisdiction, and to impose fines and other sanctions. If RS discovers evidence of an apparent violation of the ATS Rules or a Regulated Market's rules, it refers the matter to the appropriate regulatory authority or Regulated Market for further investigation and enforcement action. RS has an extensive education program for industry participants consisting principally of seminars for trading and compliance personnel, conference participation and sponsorship, issuance of guidance notices on topical matters and real-time support to answer particular inquiries on trading matters.

Regulatory Agreements. RS has entered into regulatory agreements and arrangements with other regulatory authorities, SROs and law enforcement agencies in Canada and abroad for the sharing of information and the provision of assistance in investigations and enforcement matters.

Locations. RS operates out of offices in Toronto and Vancouver. At the present time, RS has a staff complement of 83.

Revenues. RS has an annual operating budget of approximately \$21 million for the fiscal year ending February 28, 2008. With the exception of cost recoveries from disciplinary proceedings, all of RS's operating expenses are funded by fees it bills to the Regulated Markets and/or the persons participating in those markets for the services provided to each Regulated Market by RS.

RS also receives revenues in the form of fines and settlements received from participants in the Regulated Markets for breaches of UMIR. Penalty revenues are maintained in a separate fund (the "RS Restricted Fund") and may only be used to fund costs incurred by RS in conducting disciplinary hearings, in connection with special projects that benefit the investing public, or as contributions to other non-profit organizations the objectives of which benefit the investing public. At February 28, 2007, the balance in the RS Restricted Fund was approximately \$7.5 million.

Excluding amounts accruing to the RS Restricted Fund, RS operates on a cost-recovery basis, adjusting the fees charged for its regulation services to ensure that it does not accumulate funds in excess of its working capital requirements. RS maintains a working capital balance in cash or near-cash assets in an amount equal to approximately three months operating costs.

Additional services. In addition to the administration and enforcement of UMIR as RSP provider to the Regulated Markets, RS provides additional services to TSX, TSX Venture Exchange and CNQ in respect of marketplace-specific requirements and rules. RS administers on behalf of these exchanges the timely disclosure policies that apply to listed issuers. RS continues to provide timely disclosure services to the exchanges on a direct cost-recovery basis. TSX and TSX Venture Exchange have given notice to RS that, subject to regulatory approval, they intend to repatriate timely disclosure services. If the relevant regulators approve the repatriation of the timely disclosure services as performed for TSX and TSX Venture Exchange, RS intends to cease offering this service to CNQ as it will no longer be cost effective for RS to do so.

Assets. As at February 28, 2007, RS's main assets consist of \$8.2 million of unrestricted cash and receivables, \$1.1 million in net capital assets, and \$7.8 million of restricted cash and receivables.

Material Contracts. RS is a party to the following material contracts:

- *Corporate Services Agreement with TSX:* RS and TSX are parties to an amended and restated Corporate Services Agreement dated as of March 1, 2002, under which TSX provides certain corporate and information technology services to RS. The initial five-year term of this agreement ended on February 28, 2007, but RS and TSX have agreed to extend the term of the agreement and to implement certain pricing adjustments. Either party may give 120 days' notice of termination of the agreement during this extension period, subject to RS's right to receive transitional assistance from TSX following termination. RS and TSX are currently negotiating a technology services agreement to be entered into on the effective date of the combination under which TSX will provide certain technology services to New Regco, including the technology services currently used by RS to perform real-time and post-trade surveillance and investigations. It is expected that there will be cross-termination rights as between the RSAs with TSX and TSX Venture Exchange and the technology services agreement, giving either party the right to terminate the RSAs if the technology services agreement is terminated, and giving either party the right to terminate the technology services agreement if the RSAs are terminated.
- *Regulation Services Agreements with the Regulated Markets identified under the heading "Marketplace regulation" above.*

5. OVERVIEW OF NEW REGCO

5.1 Legal Form

New Regco will be incorporated as a non-share capital corporation under Part II of the *Corporations Act* (Canada). It will be a membership-based organization with no share ownership. The Letters Patent of New Regco will specify that its objects are to regulate as a self-regulatory organization in respect of current and former members of the Corporation, members, users or subscribers of or to marketplaces, the respective representatives of such persons and other persons subject to the jurisdiction of New Regco, in order to protect investors, foster investor confidence and enhance the fairness and efficiency of Canadian capital markets. The legal name of New Regco has yet to be determined and suitable names are being considered in consultation with interested persons including the CSA.

Draft copies of the Letters Patent and the initial By-law of New Regco are attached as Schedule 3.

5.2 Membership

New Regco will have two classes of members: Dealer Members and Marketplace Members. Dealer Members will be investment dealers in accordance with applicable Canadian securities legislation (including ATSS which are required to be registered dealers and members of an SRO) who are accepted for membership by the Board. All IDA members will become Dealer Members as contemplated by the terms of the IDA Combination Resolution and pursuant to an expedited application process including a form of attornment as described in Section 2.5. Marketplace Members will be the Regulated Markets, which are marketplaces that have retained New Regco as their RSP. An ATS will qualify as both a Dealer Member and Marketplace Member but shall only be entitled to one vote on any vote by Members. The relevance of the two classes of Members relates primarily to the basis on which Members are admitted to membership, fees are charged and directors are determined as either a Dealer Director or a Marketplace Director.

Dealer Members and Marketplace Members will have the same rights and entitlements, subject to legal requirements. Dealer Members and Marketplace Members shall vote together and be entitled to one vote for all matters to be voted on by Members except as required by law. While ATSS will be both Dealer Members and Marketplace Members, each ATS will be entitled to only one vote.

5.3 Governance

Board of Directors. The By-laws of New Regco will provide for the establishment of a Board of Directors with 15 directors. The Board will have an uneven number of directors appointed, comprising the President and CEO of New Regco, and an even number of independent and non-independent Directors. The definition of “independent director” is a director who is not (a) an officer (other than the Chair or any Vice-Chair) or an employee of New Regco; (b) a partner, director, officer, employee or person acting in a similar capacity of: (i) a Marketplace Member, or (ii) a Dealer Member, or (iii) an associate or affiliate of a Marketplace Member or a Dealer Member; or (c) an associate of a partner, director, officer,

employee or person acting in a similar capacity of a Dealer Member or Marketplace Member. The Chair of the Board will be appointed by the Board in accordance with governance procedures to be developed and adopted by the Board.

The Board will consist of 5 individuals representing Dealer Members, 2 individuals representing the Marketplace Members, 7 independent directors and the CEO. TSX will be entitled to nominate one of the Marketplace Directors as long as it is a Regulated Market and it and Marketplaces associated or affiliated with it maintain in aggregate not less than 40% Market Share (as determined under the By-law). The other Marketplace Director will be a representative of a Marketplace other than one affiliated with TSX.

Prior to each annual meeting, the Corporate Governance Committee will review and select the number of persons recommended to be nominated to serve as independent directors and non-independent directors in accordance with the requirements for the composition of the Board. The Corporate Governance Committee will evaluate individual candidates based on their ability to contribute a range of knowledge, skills and experience and having regard for the required composition of the Board and the fact that the Board, as a whole, should be representative of New Regco's various stakeholders. The Board shall nominate such persons for election at each annual meeting of Members.

Directors will serve for staggered 2-year terms. All directors other than the President will be restricted to term limits of 4 consecutive terms.

Initial Directors. The initial directors of New Regco are listed in Schedule 4. As a new organization, New Regco has had to establish its initial Board of Directors without an established corporate governance structure. Consequently, the Steering Group was designated to act as an ad hoc corporate governance committee for the purposes of nominating candidates as the first directors of New Regco. The Steering Group considered recommendations from current and past members of the IDA and RS Boards, committee members, member firms and other sources.

Initially a sub-committee of the Steering Group was formed to discuss the desired qualifications for director candidates and a list of potential candidates. The Steering Group retained a consultant to assist it in identifying the knowledge, skills and experience desired of candidates for the Board, and to assist it in identifying potential candidates. The Steering Group then reached a consensus on the nomination of 15 candidates for director positions. After obtaining agreement from each of the candidates to serve on the Board, the Steering Group ensured that the appropriate background checks were carried out for each candidate. The nominated candidates have been approved by the Board of Directors of the IDA.

Individual candidates were evaluated in the context of the overall composition of the Board. New Regco seeks individuals who, as a group, can best supervise the affairs of the organization by contributing a range of knowledge, skills and experience to the Board. Each director is not expected to possess all the qualifications sought, but the Board as a whole should broadly reflect the desired qualifications.

The primary factors in the selection of directors are integrity and merit, having regard to the required composition of the Board, candidates' qualifications and the fact that the Board as a whole must represent the organization's diverse stakeholders. The directors must reflect and be sensitive to the interests of investors, members and markets that New Regco will serve. The Steering Group also considered the need to balance regional representation from across Canada, and for a reasonable level of continuity in SRO governance by including former directors of the IDA and RS.

5.4 Board Committees

The Board of New Regco will appoint three standing committees: the Finance and Audit Committee, the Human Resources and Pension Committee and the Corporate Governance Committee. In addition, the Board in its discretion may appoint additional committees of the Board with such powers as it may determine.

Finance and Audit. The Finance and Audit Committee will be composed of at least five directors, including the Chair, and at least two independent directors. The chair of the Committee will be elected by the members of the Committee. The Committee's mandate will be to review and report to the Board on the annual financial statements of New Regco and to perform such other duties as may be delegated including overseeing the accounting and financial reporting processes of New Regco and ensuring that overall resources are adequate to achieve the organization's various regulatory objectives. Under the RSA with TSX, TSX will have the right to representation on the Finance and Audit Committee as long as it is entitled to nominate a Marketplace Director or until its RSA terminates (the TSX RSA has an initial term of five years).

Human Resources and Pension. The Human Resources and Pension Committee will be composed of at least five directors, including the Chair and its chair will be elected by members of the Committee. Its mandate will be to ensure that New Regco can attract and retain personnel with the appropriate status and experience to achieve its corporate objectives by offering compensation, pension and benefit plans that are competitive, motivating and rewarding. The Committee will also be responsible for overseeing the administration of the pension plans of New Regco and ensuring regulatory compliance by the plans and New Regco.

Corporate Governance. The Corporate Governance Committee will be composed of at least five directors all of whom, except for the Chair, shall be independent directors. The Chair, who may be an industry or independent director from time to time, will be eligible to serve as a voting member of the Corporate Governance Committee. The chair of the Committee will be an independent director elected by the members of the Committee. Its mandate will be to broadly consult with appropriate sources to identify and recommend to the Board qualified nominees for election to the Board of Directors, recognizing the status of New Regco as an SRO in the various Canadian jurisdictions. It will also appoint qualified individuals to the Hearing Committee (from which disciplinary panels are appointed) on a similar basis.

5.5 District Councils

The District Councils will remain an integral part of New Regco. District Councils will reflect the fact that New Regco is a membership organization. The members of New Regco through their local District Council will continue to discharge important regulatory duties. In addition, the District Councils will provide a forum for members to discuss matters of regional interest. This will preserve the strong tradition of member engagement in the self regulatory structure. While the advisory committees described in section 5.7 will be the primary forum for policy consideration and communication, the District Councils will continue to provide input on policy initiatives as appropriate. In order to streamline and make the policy process more efficient the District Councils will generally provide their policy comments through their District Council Chair to the National Advisory Committee.

The regulatory mandate of the District Councils will continue substantially unchanged under New Regco. The District Council will grant exemptions from registration and other regulatory approvals through its committees. In order to integrate and streamline the hearing process all Dealer Hearing Committee members will be approved by the Corporate Governance Committee on the recommendation of the District Council. In addition, the District Councils will provide recommendations to the Board concerning new Dealer Member applications.

5.6 National Advisory Committee

As is currently the case, the National Advisory Committee (the "NAC") will be made up of the District Council Chairs and provide input through the CEO. The mandate of the NAC will be to:

- solicit, review, coordinate and build consensus from comments and responses to regulatory proposals received from District Councils;
- assume an advocacy role consistent with investor protection to promote self-regulation by acting as ambassadors to the industry at large;
- identify and advise about industry trends that would assist New Regco in being more proactive in dealing with emerging issues and meeting regulation obligations; and
- aim to develop and harmonize a national approach to dealing with regulatory issues with respect to which the District Councils have a role.

The NAC will consider policy matters and issues of interest to Dealer Members in general but will not be involved in particular registration, membership or discipline cases.

5.7 Advisory Committees

The existing advisory committees of RS and the IDA are being reviewed to determine which should be continued and whether their mandates should be revised. The IDA's Chair's Consultative Committee is to be disbanded. The IDA's Compliance and Legal Section and

the Financial Administrators Section will continue to be “open” membership committees (with each Dealer and Marketplace Member entitled to have one voting member in each Section), while all other advisory committees (corporate finance, derivatives, education and proficiency, fixed income, market regulation and retail sales) will have appointed membership. Under the TSX RSA, TSX will be entitled to representation on the Market Regulation Committee. Other Marketplaces will also be entitled to representation on that committee. TSX and other Marketplaces will also be eligible for representation on other advisory committees, subject to the applicable eligibility and nomination process of New Regco.

Advisory committees will perform two kinds of primary functions, namely, acting as a source of policy input and being a forum for communicating policy matters to the members and industry. All such committees will be structured and operate according to the following principles and purposes:

- Reflect the fact that they are advisory and do not have decision making authority.
- Include non-member/industry participants to ensure that broad perspectives are considered in the policy development process.
- Be a cross-section of industry members recruited with specific and unique know-how relevant to the committees' mandates.
- Encourage fresh input through turnover of committee membership on a flexible and transparent basis.
- Provide flexibility in policy development, maximize timeliness and efficiency, allow the CEO to balance industry participation with the ability to implement initiatives promptly and provide transparency of process and clarity of mandate for all stakeholders.
- Promote informal and interactive debate.
- Demonstrate to members and the industry the value of their participation.

5.8 **Transaction Structure**

Transfer of operations. Subject to Member and Board approval, and RS Board and shareholder approval, and to receipt by New Regco of Recognition Orders from the securities regulatory authorities in British Columbia, Alberta, Saskatchewan, Manitoba, Newfoundland and Labrador, New Brunswick, Nova Scotia, Ontario and Quebec, and registration delegation orders from each relevant securities regulatory authority, all of the property of the IDA and RS will be transferred to New Regco in consideration of the assumption by New Regco of all of the respective liabilities of the IDA and RS. As a condition of the transfer of the IDA and RS assets to New Regco, New Regco will agree to transfer the balance in the IDA

Discretionary Fund and the RS Restricted Fund, respectively, at the time of such transfer to the New Regco Restricted Fund.

New Regco Rules. The New Regco Board will establish rules in respect of the regulation of its members and other persons (such as approved persons) subject to the jurisdiction of New Regco in accordance with its letters patent, by-laws and applicable securities legislation. Such rules will provide for the basis on which New Regco regulates its members and others under its jurisdiction including the standards of business conducted expected. Initially, the current IDA rules as they relate to Dealer Member conduct will be adopted by New Regco. The provisions of UMIR relating to trading conduct of Dealer Members will, following the combination, continue to apply only to those Dealer Members that are members or subscribers of Regulated Markets. See Section 6 relating to “Regulation by New Regco”.

CDS and FundSERV. The shares of CDS and FundSERV to be contributed by the IDA to New Regco and any determination with respect to voting, use or disposition of the shares, or the application of any proceeds therefrom, will remain solely with the directors of New Regco representing the Dealer Members. This basis for dealing with the shares of CDS and FundSERV will be required by the terms on which the shares are to be transferred by the IDA to New Regco.

Continuation of IDA and RS. Following the transfer of the property of the IDA and RS to New Regco, the IDA and RS will continue for an indefinite period of time (expected to be five years). They will each hold in trust for the benefit of New Regco any contracts which are not assigned to New Regco. The continuing existence will also permit the IDA to carry out disciplinary actions against its members and RS to take disciplinary actions against persons subject to the jurisdiction of RS prior to the combination in respect of trading conduct in marketplaces for which RS was the RSP. The Members of the continuing IDA will be all Members immediately prior to the combination together with dealers who become Dealer Members of New Regco, other than those Members which are determined for this purpose by the New Regco Board or which cease to be members of either the IDA or New Regco in accordance with their respective by-laws. New Regco will act as agent in all such matters on behalf of the IDA and RS. During such period, New Regco will agree to fund any expenses incurred by the IDA or RS in carrying out such actions and the IDA and RS will agree that any fines and settlement amounts arising from such actions will be for the account of the New Regco Restricted Fund.

No distribution. No property will be distributed or transferred to the members of the IDA as a result of the combination (or eventual termination of the IDA) and no property will be distributed or transferred to the shareholders of RS as a result of the combination (or eventual dissolution of RS).

5.9 Organizational Structure

The organizational structure of New Regco has been designed to effectively balance the preservation of the member and market regulation capabilities of the IDA and RS, respectively, while facilitating the necessary degree of integration to realize the objectives of the merger. Susan Wolburgh Jenah will be the President and Chief Executive Officer of New

Regco responsible for overall management of the business and affairs of New Regco and reporting to the Board.

The following senior officers will be included in the executive management team:

Paul Bourque	Senior Vice President overseeing Member and Market Regulation Policy, Enforcement, Registration and Member Services
Rosemary Chan	Senior Vice President, General Counsel and Secretary, overseeing corporate counsel, disciplinary hearing coordination, strategic planning, research and special projects
Maureen Jensen	Senior Vice President overseeing Member and Market Surveillance and Compliance
Steve Rostowsky	Senior Vice President overseeing finance, IT services, human resources and office services/administration

The regional Vice Presidents and other officers and staff of each of the IDA and RS at their respective offices will continue to be integral components of the organization structure of New Regco.

5.10 Financial Information

The financial information below presents the relative size (revenues and expenses) of the IDA and of RS as well as some recent history of the revenues and cost components for each organization. The 2008 budget figures are the combined budgets of each organization and do not necessarily reflect an accurate projection or forecast at this time. Both the IDA and RS operate as not-for-profit organizations and as such, in the normal course, revenues are budgeted to equal estimated gross expenses. The figures are for the fiscal years (2006-2008) ending March 31 and February 28 (February 29, 2008) for the IDA and RS, respectively.

	2006 Actual			2007 Actual			2008 Budget		
	IDA	RS	Total	IDA ¹	RS	Total	IDA	RS ²	Total
All amounts are in \$000's									
Revenues									
UMIR Fees		15,938	15,938		17,417	17,417		19,480	19,480
Timely Disclosure		1,973	1,973		2,067	2,067			
Investigative Research		1,793	1,793		1,861	1,861			
Other	1,220	508	1,728	2,232	749	2,981	1,513	180	1,693
Underwriting Levies	7,288		7,288	7,431		7,431	7,000		7,000
Registration Fees	2,881		2,881	2,619		2,619	2,541		2,541
Member Fees	31,382		31,382	33,422		33,422	36,297		36,297
Member Fee Reduction				(14,250)		(14,250)	(14,250)		(14,250)
Total Revenues	42,771	20,212	62,983	31,454	22,094	53,548	33,101	19,660	52,761
Expenses									
Compensation and									
Benefits	32,226	9,685	41,782		9,925	42,174	35,098	9,531	44,629
Technology Costs	860	6,863	7,723		7,015	7,878	868	7,248	8,116
Other Costs	11,459	3,817	15,405		3,992	15,580	12,385	4,034	16,419
Total Operating Costs	44,545	20,365	64,910	43,856	20,932	65,332	48,351	20,813	69,164
Excess (Deficit)									
Revenues over Costs	(1,774)	(153)	(1,927)	(12,402)	1,162	(13,370)	(15,250)	(1,153)	(16,403)

¹ IDA's costs in 2007 were reduced by approximately \$3.5 million as a result of the transfer to the IIAC, effective April 1, 2006, of certain activities formerly conducted by the IDA.

² The RS 2008 Budget anticipated the repatriation to TSX on March 1, 2007 of its timely disclosure and investigative research services. The investigative research services were repatriated to the TSX at the end of May 2007. RS continues to invoice TSX for timely disclosure services, which amounts (both revenue and expenses) are not reflected in the budgeted amounts above.

The IDA's principal source of revenues is Member Fees. Revenues are also received from underwriting levies, registration fees and interest income. The IDA estimates revenues from these other sources for the upcoming budget year. The difference between budgeted expenses and revenue from these other sources are the budgeted Member Fees for the next year. Effective January 1, 2006, the IDA sold CSI Global Education Inc. \$28 million of the net proceeds was used to provide start-up and initial funding to the Investment Industry Association of Canada, the trade association operations that were split from the IDA, effective April 1, 2006. The balance is being applied to reduce fees of IDA Members otherwise payable. These reductions are being spread over the fiscal years of 2006-07 and 2007-08. This amount represents a fee reduction of approximately 40% in each of those years. The "Member Fee Reduction Fund" will be fully utilized by March 31, 2008 and Member fees for subsequent years will reflect the Members' full share of IDA total budgeted costs.

RS's principal source of revenues is UMIR regulation fees charged to Regulated Markets (or their participants) to recover the cost of providing UMIR regulation services to those marketplaces under their respective RSAs. RS also derives revenues from additional services provided to TSX, TSX Venture Exchange and CNQ by administering on behalf of these exchanges the timely disclosure policies that apply to listed issuers. TSX and TSX Venture Exchange gave notice to RS that, subject to regulatory approval, they intended to repatriate timely disclosure services. For this reason, the 2008 budget for RS assumes no revenue or expenses in respect of these services. If the recognizing regulators approve the repatriation of the timely disclosure function as performed for TSX and TSX Venture Exchange, RS intends to cease offering this service to CNQ as it will no longer be cost effective for RS to do so. The services provided with respect to timely disclosure are provided on a cost recovery basis. As such, the repatriation of the services related to timely disclosure, if it occurs, will not have a significant impact on the financial position of RS.

Compensation and benefits comprise about 73% of IDA 2007-2008 budgeted costs and about 46% of RS costs, while technology costs comprise approximately 35% of RS costs but only a small percentage of IDA costs. Most of the RS technology costs relate to its core market surveillance capability that is provided to RS under a contract with TSX Technologies.

While both the IDA and RS were aware of the on-going combination discussions, both organizations prepared their 2007-08 budgets on a stand-alone basis, i.e. without considering the impact, if any, that the merger would have on costs in fiscal 2007-08.

The Board of Directors of each of the IDA and RS have approved as being in the public interest the funding of all combination-related expenses from their respective Discretionary/Restricted Funds in accordance with the relevant By-laws and other obligations of each organization. These costs will include items such as legal fees, CEO search fees, project management costs, severance costs, communications, member consultation and other costs related to the transition to the combined entity such as those required pursuant to a change of the name for the new organization, IT integration and physical moves of personnel and premises. Consequently, the combination expenses will not impact Member or UMIR fees. The merger may not be completed before the fiscal year ends of the IDA and RS (March 31 and February 29, 2008, respectively). Consequently, fees for fiscal 2008-09 will

be based on each separate organization's 2008-09 budgets. If the combination results in any material cost savings in the fiscal year, Members' fees and UMIR fees will either be adjusted in the fourth quarter of fiscal 2008-09 or will be reflected in the following year's proposed fees.

5.11 Fees

Upon the creation of New Regco, the fee structures of RS (with respect to Marketplace Members) and the IDA (with respect to Dealer Members) in effect at that time will initially be maintained and administered by New Regco. Both fee models are intended to be neutral, based on cost recovery. New Regco will initiate two significant and related projects to determine the appropriate basis for its:

- (a) Cost allocation – principally a methodology for allocating costs between Member and Market regulation; and
- (b) Fee model – the methodology for apportioning fees between Dealer Members for Dealer regulation and between Marketplace Members for market regulation .

New Regco is committed to initiating the cost allocation project immediately post-merger with a view to adopting an appropriate cost allocation methodology. In addition, it will initiate a project to develop a fee model for New Regco in the first fiscal year of the merger. Development of a new fee model will be a complex exercise and will likely require expert professional advice. Implementation of any such fee model will involve consultation with Members and will be subject to CSA review.

As described above, a priority project for New Regco will be to develop under a fair and transparent process an appropriate fee model for the integrated entity based on actual experience gained in performing member and market regulation functions in a combined structure. In this regard the following principles will be applied:

- New Regco will have a fair, transparent and appropriate process for setting fees to be paid by its members as approved by its Board of Directors.
- The fees paid by a Member shall be imposed on a cost-recovery basis, to the extent practicable and on a best efforts basis, such that the cost of performing New Regco's regulation function may be recovered from Members on an equitable basis.
- New Regco will ensure that the cost of providing other Marketplace services is paid for by the Marketplace which has entered into the RSA for the provisions of such services.

RS has published two proposals related to its fee model between Marketplaces for market regulation:

- RS Notice 2006-007 – *Proposed Allocation of Costs – First Group* (November 17, 2006): this notice described the allocation model approved by the RS Board for a series of direct charges to marketplaces to recover operational and capital costs caused by the introduction of new marketplaces; and
- RS Notice 2007-001 – *Proposed UMIR Regulation Fee Model* (January 12, 2007): this notice described a new “activity-based” model approved by the RS Board to recover RS’s costs of providing UMIR regulation services to marketplaces for which RS is the regulation services provider.

The public notice and comment period for both proposals has ended, and RS is pursuing approval of these proposals with its recognizing regulators. RS intends to implement any proposal for which it receives regulatory approval prior to the effective date of the merger.

6. REGULATION BY NEW REGCO

6.1 Initial Rules

Self-regulatory organizations. As described in Sections 3 and 4, respectively, both the IDA and RS are SROs that have been recognized by the applicable members of the CSA. As such, they both conduct regulatory activities, in the case of the IDA, of its Member investment dealers and, in the case of RS, as an RSP for the Regulated Markets.

IDA Rules. The Members of the IDA are subject to a number of regulatory requirements including provincial securities laws, the IDA Rules (by-laws, regulations, policies, forms, etc. of the IDA) and others, depending on their activities, such as the requirements of the Bank of Canada in respect of certain primary debt market business. Many IDA Members are also subject to the UMIR rules of RS to the extent they are members or subscribers of the exchanges and ATSS for which RS is the regulation services provider.

Provincial securities legislation. IDA Members and their approved persons will not be required to re-register as a result of the combination with RS. Certain provincial securities legislation refers specifically to the IDA including, for instance, exemptions from provincial legislative or regulatory requirements for Members of the IDA. It is expected that such exemptions will continue to be available to IDA Members when they become Dealer Members of New Regco. As described below under Section 6.2 “Enforcement”, it is intended that Dealer Members will remain members of the IDA for a period after the commencement of operations of New Regco.

UMIR. Similarly, the members and subscribers of the Regulated Markets are subject to provincial securities laws as well as UMIR. Exchanges and QTRSs are not directly regulated by RS and will not be directly regulated by New Regco. However, Marketplace Members that are ATSS will remain subject to UMIR as well as the IDA Rules as adopted by New Regco. New Regco will monitor the activities of Marketplace Members that are ATSSs.

Transition of Membership. All existing IDA members will become Dealer Members of New Regco. The Combination Resolution provides that IDA Members will become Dealer

Members of New Regco and by their New Regco application form they will agree to be bound to the member regulation rules of New Regco. New Regco will enter into new RSAs with TSX and TSX Venture Exchange effective on the date of the combination, and the RSAs with the other Regulated Markets will be assigned by RS to New Regco. The members and subscribers will remain as such for each Marketplace Member without further action on their part.

6.2 Enforcement

IDA. Investment dealers are required by provincial securities laws to be members of an SRO recognized under such laws. The IDA exercises its enforcement authority over its Members primarily by the contract constituted by the IDA Rules and the terms of membership admission. Under New Regco, this basis of jurisdiction will continue as well as Dealer Members becoming subject to the corporate by-laws of New Regco. Similarly, the regulatory approvals by District Councils and disciplinary proceedings conducted by hearing panels will continue in respect of Dealer Members under New Regco.

RS. RS's jurisdiction is also based on contract, with an RSA being entered into with each Regulated Market. In order to ensure jurisdiction over members of an exchange, the recognition orders of each exchange indicate that RS is acting as agent for that exchange (and as such has the same jurisdiction over the members trading on that marketplace as the marketplace itself). RS initially obtained jurisdiction over subscribers to an ATS for which RS is the RSP by direct contractual relationship between RS and the subscriber. However, in 2005 certain of the Recognizing Regulators issued orders confirming RS's jurisdiction over ATS subscribers in the absence of a direct contractual relationship, and New Regco will rely on these orders. In April 2007, the Recognizing Regulators and RS published for public comment proposed amendments to the ATS Rules (and consequential amendments to UMIR) that would require a subscriber to an ATS to enter into a written agreement with the RSP for that ATS in which the subscriber agrees, among other things, that it will conduct trading activities in compliance with the ATS Rules and UMIR, and acknowledges that the RSP will monitor the subscriber's trading conduct and enforce the ATS Rules and UMIR in respect of such trading conduct. These proposed amendments were open for public comment until July 2007.

New Regco jurisdiction. New Regco will assume jurisdiction over the conduct of Dealer Members and the members and subscribers of the Regulated Markets occurring both before and after the commencement of New Regco's regulatory activities.

For investigations or enforcement actions in progress at the time New Regco commences its regulatory activities, Dealer Members will be expected to atturn to the jurisdiction of New Regco for all purposes, including their actions while under IDA jurisdiction before the combination. In this regard, IDA Members will be required to sign and provide to New Regco a written acknowledgement of their becoming members subject to the jurisdiction of New Regco. Approved persons in respect of Members are bound by the terms of their National Registration Database registration to comply with the requirements of any SRO such as New Regco to which their respective Members may belong from time to time. For former IDA Members and approved persons that do not come under New Regco's

jurisdiction, the IDA will continue in existence for a period of time (expected to be five years) and will continue the enforcement actions as appropriate in its own name. The staff and other resources that will have been transferred by the IDA to New Regco will be made available as required pursuant to a services agreement.

The staff of each of the IDA and RS have reviewed the enforcement and disciplinary processes of each organization, including customer complaints and investigations. Staff are developing a uniform set of rules and procedures for the enforcement processes within New Regco. It is not expected that there will be substantive changes to the existing IDA enforcement and disciplinary processes. All rule changes will be subject to the approval (or non-disapproval) of the applicable recognizing regulators.

6.3 Fine and Penalty Revenues

Amounts received by New Regco as fines and settlement in enforcement proceedings will be maintained in the New Regco Restricted Fund and used solely for prescribed purposes as permitted by the terms of the applicable recognition orders for New Regco. These purposes will include funding costs incurred by New Regco on matters similar to those currently funded from the IDA's Discretionary Fund and RS's Restricted Fund such as conducting disciplinary proceedings and special projects that benefit investors, the public or the Canadian capital markets generally.

6.4 New Rules and Amendments

New rules and amendments to New Regco rules will be developed by New Regco staff in consultation with the Board and the industry committees described in this Information Circular. All such rules and amendments will be made by the Board by resolution requiring a majority of the votes cast to be in favour. Such rules will not require approval by Dealer Members or Marketplace Members in order to be effective. No such rules will be effective until approved (or not disapproved, depending on the process in the jurisdiction) in accordance with the requirements of the applicable recognizing regulators pursuant to the recognition orders expected to be made in respect of New Regco. In addition, the IDA has agreed in principle with the Canadian Investor Protection Fund not to make any new rules (or amend existing rules) relating to prudential regulation of IDA members without providing notice and an opportunity to CIPF to comment. This arrangement, if formalized before the commencement of New Regco's operations, will be continued by New Regco.

6.5 Agreements and Arrangements with other Authorities

Both the IDA and RS are parties to several regulatory agreements and arrangements with other regulatory authorities, SROs, marketplaces, law enforcement agencies, protection funds and others relating to regulatory co-operation, information sharing, monitoring, investor protection and related subjects. It is expected that all such agreements and arrangements will be assigned to New Regco or new agreements entered into with New Regco.

7. OTHER MATTERS

7.1 Income Tax Ruling

An advance income tax ruling is expected to be obtained from Canada Revenue Agency confirming that:

- none of the IDA members or the shareholders of RS will be considered to have realized a gain or income on the disposition of its membership in the IDA or shares of RS, as the case may be, or as a result of the transfer of all of the property of the IDA and RS to New Regco, or to have received a taxable benefit as a result of such transactions; and
- the proposed transactions, in and of themselves, will not affect the status of the IDA or RS as tax exempt organizations in the taxation year(s) in which the property of the IDA and RS is transferred to New Regco.

7.2 Continuing Obligations

The IDA has entered into agreements with both CSI Global Education Inc. and the Investment Industry Association of Canada that specifically require any transferee of the IDA's operations or organization into which the IDA may be merged to agree to be bound by such agreements. In the case of CSI Global Education Inc., the IDA has entered into a Course Agreement dated January 6, 2006 pursuant to which, among other things, CSI is the supplier (on an exclusive or co-exclusive basis) to the IDA in respect of certain course materials and examinations. In the case of IIAC, which since April 1, 2006 has carried on certain trade association advocacy and activities formerly conducted by the IDA, the IDA and IIAC have entered into an agreement that, among other things, provides for (i) the review of IIAC's funding, (ii) the transfer of the name assets of the IDA to IIAC when the IDA ceases to use them for its self-regulatory functions, and (iii) certain matters relevant to the transfer of assets and liabilities. New Regco will agree to be bound by the relevant terms of both of these agreements.

7.3 Transitional Matters

Under the New Regco by-laws and rules, the Board of Directors or other designated persons have the authority to suspend or modify the provisions of the by-laws or rules to assist in the orderly transition of Dealer Members and Marketplace Members from the IDA and RS, respectively, to New Regco.

8. BOARD OF DIRECTORS' APPROVAL AND RECOMMENDATION

The Board of Directors of the IDA has approved this Information Circular and the Combination Resolution including all actions and proceedings necessary or desirable for the IDA and its Members to implement the Combination Resolution and the transactions with New Regco and RS contemplated by it and/or described in this Information Circular. The Board of Directors of the IDA RECOMMENDS to Members of the IDA the adoption of the Combination Resolution.

SCHEDULE 1
Combination Resolution

AMENDMENTS TO CONSTITUTION

BE IT RESOLVED THAT the Constitution of the Association be amended as follows:

(a) Section 7 is deleted and replaced with the following:

7(i) **Pre-Combination Rules.** The By-laws, Regulations, Policies and Forms of the Association and all member regulation notices, compliance interpretation bulletins, financial compliance notices, rules of practice and procedure and all other regulatory notices and directions of the Association and/or its District Councils, Board of Directors, Committees, Hearing Panels, other authorized bodies and authorized officers in effect immediately prior to the Effective Time of the Combination authorized pursuant to the Constitution (the "Pre-Combination Rules") shall remain in full force and effect in respect of matters arising from or related to events, conduct, actions, omissions and proceedings existing or occurring prior to the Effective Time by or affecting Members or persons approved by or subject to the jurisdiction of the Association including, without limitation, partners, directors, officers, shareholders, branch managers, registered representatives and employees. Notwithstanding the occurrence of the Combination, Members and persons approved or subject to the jurisdiction of the Association shall continue to be bound by the Pre-Combination Rules in respect of such matters described existing or occurring prior to the Effective Time, and the Pre-Combination Rules shall be enforceable by the Association and its bodies, panels or committees acting under its authority or the self-regulatory organization created as a result of the Combination against and in respect of such Members and other persons.

(ii) **Post-Combination Rules.** Following the Effective Time of the Combination authorized pursuant to the Constitution, By-laws enacted by the Board of Directors and any amendment, repeal or re-enactment thereof shall be effective immediately or at such later time as may be specified therein, and shall remain in force until amended, repealed or re-enacted by the Board of Directors.

(b) Section 9 is deleted and replaced with the following:

9. This Constitution may be amended by resolution of the Board of Directors.

(c) Section 11 is deleted and replaced with the following:

11(i) The Association shall combine its property, liabilities and operations with those of Market Regulation Services Inc. ("RS") in a new self-regulatory organization, which is to be created (and which is unnamed but provisionally

referred to as New Regco) and to have such constitution and name as may be approved by the Board of Directors, (the "Combination") substantially on the terms and conditions as described in the Information Circular accompanying the Notice of the Special Meeting of Members at which the amendment to the Constitution by this Section 11 is passed by resolution, together with such amendments to such terms and conditions as the Board of Directors may approve and/or as may be required or approved by any securities regulatory authority having jurisdiction over the Association, all to be effective at such time and date (the "Effective Time") as determined by the Board of Directors.

(ii) The Board of Directors may approve and authorize the entering into, performance and/or making by the Association of all such agreements, applications, arrangements and other acts and documents as they may consider necessary or desirable to effect the Combination including, without limitation, a combination agreement between the Association, RS and/or New Regco, applications to securities regulatory authorities with respect to the recognition orders of the Association and/or New Regco as self-regulatory organizations, agreements with Members or their approved persons in respect of the investigation and enforcement proceedings of the Association and all matters incidental or related to the foregoing.

(iii) As of the Effective Time, all Members of the Association immediately prior thereto (except such Members as may be determined for this purpose by the board of directors of New Regco) shall become members and subject to the letters patent, by-laws, rules and jurisdiction of New Regco without further action except as may be prescribed by New Regco. Each such Member which becomes a member of New Regco at the Effective Time shall remain bound and obligated in respect of all agreements, undertakings, terms, conditions and other regulatory arrangements made between it and the Association, and such agreements, undertakings, terms, conditions and other regulatory arrangements shall enure to the benefit of New Regco as well as the Association and may be relied on and enforced by either of the Association or New Regco.

(iv) As of the Effective Time, all persons who immediately prior thereto are approved by the Association pursuant to its By-laws, Regulations, Policies and Forms in any capacity, including without limitation, partners, directors, officers, shareholders, branch managers, registered representatives or employees (but excluding such persons who may be determined for this purpose by the board of directors or a district council of New Regco) shall become approved in the same capacity and subject to the letters patent, by-laws, rules and jurisdiction of New Regco without further action. Each approved person which becomes approved in respect of and subject to the jurisdiction of New Regco at the Effective Time shall remain bound and obligated in respect of all agreements, undertakings, terms, conditions and other regulatory arrangements between such person and the Association, and such agreements, undertakings, terms, conditions and other regulatory

amendments shall enure to the benefit of New Regco and may be relied on and enforced by either the Association or New Regco.

(d) New section 12 is made as follows:

12. Following the Effective Time and for a period ending on the 5th anniversary thereof, unless determined otherwise by the Board of Directors, the Association shall continue as an association of its Members. The Members of the continuing Association from time to time shall be the Members immediately prior to the Effective Time together with dealers who become members of New Regco in the category of dealer members (i.e. other than solely as marketplace members), except such Members or dealer members (1) as may be determined for this purpose by the Board of Directors or the board of directors of New Regco or (2) which cease to be Members or members of New Regco, both in accordance with the By-laws, Regulations or requirements of the Association or the by-laws, rules or requirements of New Regco, as the case may be. Following the Effective Time and for so long as the Association shall continue, the affairs of the Association shall be managed and controlled by the Board of Directors provided that, without limitation, the administration of the affairs and operations of the Association may be delegated to, or conducted by, New Regco on such terms and conditions as the Board of Directors may approve.

(e) New Section 13 is made as follows:

13. At the end of the period referred to in Section 12, the Association shall terminate and its operations be wound-up on such terms and conditions as the Board of Directors shall determine, which terms and conditions may include, without limitation, the maintenance of such insurance, indemnities or other protections as may be in their sole discretion determined to be necessary or desirable for the benefit of Members, the Board of Directors, members of District Councils, committees and panels and the officers, employees and agents of the Association. In the event of such termination and winding-up of the Association, all of its assets and accumulated income after payment of or providing for its liabilities shall be distributed to one or more organizations in Canada with objects similar to those of the Association (including New Regco) and which qualify for exemption under paragraph 149(1) of the *Income Tax Act* (Canada) or any successor legislation thereto, or a charitable organization in Canada for the purposes of such legislation.

The foregoing amendments to the Constitution and the actions authorized and approved thereunder and by this Resolution shall be effective as of the Effective Time, provided that any such amendments or actions may be suspended or terminated in whole or in part, and this Resolution may be withdrawn in whole or in part or made subject to any conditions, by the Board of Directors in their sole discretion and on such terms as they may determine to be necessary or desirable and in the best interests of the Members.

DRAFT

**SCHEDULE 2
Combination Agreement**

**MARKET REGULATION SERVICES INC.,
THE INVESTMENT DEALERS ASSOCIATION OF CANADA**

and

NEW REGCO

COMBINATION AGREEMENT

Dated ●, 2008

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COMBINATION AGREEMENT

Combination Agreement dated ●, 2008 between Market Regulation Services Inc. (“**RS**”), the Investment Dealers Association of Canada (the “**IDA**”) (RS and IDA collectively are the “**Combining SROs**”), and New Regco (“**New Regco**”).

RECITALS

1. The IDA is a not-for-profit unincorporated association, the members of which are firms carrying on business in Canada as investment dealers, and is recognized as an SRO by the securities commissions of Alberta, Manitoba, Nova Scotia, Ontario, Saskatchewan, Quebec, British Columbia and Newfoundland and Labrador. The objects, purposes and operations of the IDA do not include profit and no part of the income, whether current or accumulated, of the IDA shall be payable to, or otherwise made available for the benefit of, any member of the Association.
2. RS is a not-for-profit corporation incorporated under the CBCA and is recognized as an SRO by the securities commissions of Alberta, Manitoba, British Columbia, Ontario and Quebec. The objects, purposes and operations of RS do not include profit and no part of the income, whether current or accumulated, or RS shall be payable to or otherwise made available for the benefit of, any shareholder of the Corporation.
3. The IDA and RS wish to combine their operations in order to improve the effectiveness of self-regulation of the Canadian securities industry and, thereby enhance investor protection and market integrity; and
4. New Regco has been incorporated as a not-for-profit corporation without share capital under Part II of the *Corporations Act* (Canada) in order to carry out the combined operations of RS and the IDA. Subject to receipt of the Requisite Approvals, New Regco wishes to acquire all of the assets and undertaking of the IDA and RS and, in consideration, will assume all of the liabilities, undertakings and ongoing operations of the IDA and RS.

In consideration of the foregoing and the mutual agreements contained in this Agreement (the receipt and adequacy of which are hereby acknowledged), the parties agree as follows:

ARTICLE 1 **INTERPRETATION**

1.1 Defined Terms

As used in this Agreement, the following terms have the following meanings:

“**Agreement**” means this Combination Agreement and all schedules attached to it and the expression “Section” followed by a number means and refers to the specified Section of this Agreement.

“**Ancillary Agreements**” means all agreements, certificates and other instruments delivered or given pursuant to this Agreement.

“**Assumed Liabilities**” has the meaning specified in 3.1.

“**Authorization**” means, with respect to any Person, any order, permit, approval, waiver, licence or similar authorization of any Governmental Entity having jurisdiction over the Person.

“**Business Day**” means any day of the year, other than a Saturday, Sunday or any day on which major banks are closed for business in Toronto, Ontario.

“**Closing**” has the meaning specified in 11.1.

“**Combining SROs**” means RS and the IDA.

“**Commissions**” means the securities commissions (or any successor regulatory authorities thereto) in the jurisdictions in which the Combining SROs have been recognized as SROs as of the date hereof.

“**CSA Recognition**” means recognition of New Regco as an SRO, in accordance with applicable securities laws, by all of the Commissions.

“**Effective Time**” means [insert time] (Toronto time) on date of the Closing.

“**Governmental Entity**” means an (i) international, multinational, national, federal, provincial, state, municipal, local or other governmental or public department, central bank, court, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) any subdivision or authority of any of the above, (iii) any quasi-governmental, or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above, and (iv) any stock exchange.

“**Parties**” means each of the Combining SROs, New Regco and any other Person who may become a party to this Agreement.

“**Person**” means a natural person, partnership, limited partnership, limited liability partnership, corporation, limited liability corporation, joint stock company, trust, unincorporated association, joint venture or other entity or Governmental Entity, and pronouns have a similarly extended meaning.

“**Requisite Approvals**” means all approvals determined by the Boards of each of the IDA and RS to be required prior to Closing, including all required Authorizations, CSA Recognition, IDA membership approval, an advance tax ruling from Canada Revenue Agency and relevant contractual consents.

“**SRO**” means a self-regulatory organization as that term is defined under applicable securities laws.

“**Transferred Assets**” has the meaning specified in 2.1.

“**Transferred Contracts**” means any agreement, contract, license, undertaking, engagement or commitment of any nature, written or oral of either of the Combining SROs.

1.2 Gender and Number

Any reference in this Agreement or any Ancillary Agreement to gender includes all genders. Words importing the singular number only shall include the plural and vice versa.

1.3 Headings, etc

The provision of a Table of Contents, the division of this Agreement into Articles and Sections and the insertion of headings are for convenient reference only and are not to affect its interpretation.

1.4 Currency

All references in this Agreement or any Ancillary Agreement to dollars or to \$ are expressed in Canadian currency unless otherwise specifically indicated.

1.5 Certain Phrases, etc

In this Agreement and any Ancillary Agreement (i) the words “**including**”, “**includes**” and “**include**” mean “**including (or includes or include) without limitation**”, and (ii) the phrase “**the aggregate of**”, “**the total of**”, “**the sum of**”, or a phrase of similar meaning means “**the aggregate (or total or sum), without duplication, of**”. Unless otherwise specified, the words “**Article**” and “**Section**” followed by a number mean and refer to the specified Article or Section of this Agreement. In the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”.

1.6 Accounting Terms

All accounting terms not specifically defined in this Agreement are to be interpreted in accordance with Canadian GAAP.

1.7 Schedules

The schedules attached to this Agreement form an integral part of this Agreement for all purposes of it.

1.8 References to Persons and Agreements

Any reference in this Agreement or any Ancillary Agreement to a Person includes its successors and permitted assigns. Except as otherwise provided in this Agreement or any Ancillary Agreement, any reference in this Agreement to this Agreement, any Ancillary

Agreement or any other agreement or document is a reference to this Agreement, such Ancillary Agreement or such other agreement or document as it may have been, or may from time to time be amended, restated, replaced, supplemented or novated and shall include all schedules to it.

1.9 Statutes

Except as otherwise provided in this Agreement or any Ancillary Agreement, any reference in this Agreement to a statute refers to such statute and all rules and regulations made under it, as it or they may have been or may from time to time be amended or re-enacted.

1.10 Non-Business Days

Whenever payments are to be made or an action is to be taken on a day which is not a Business Day, such payment shall be made or such action shall be taken on or not later than the next succeeding Business Day.

ARTICLE 2 **TRANSFER OF ASSETS**

2.1 Transferred Assets

Subject to the terms and conditions of this Agreement, each of the Combining SROs agrees to assign and transfer to New Regco and New Regco agrees to acquire from each of the Combining SROs on Closing, effective as of the Effective Time, the undertaking and all of the property and assets of every kind and description and wheresoever situate, of each of the Combining SROs (collectively, the “**Transferred Assets**”) except those assets necessary for the continuance of the IDA and RS as contemplated in ARTICLE 5.

2.2 Transferred Contracts

Nothing in this Agreement shall be construed as an attempt to assign to New Regco any Transferred Contract which, as a matter of law or by its terms, is not assignable in whole or in part without the consent of the other party or parties to the Transferred Contract, unless such consent has been given. Each Combining SRO shall use its best efforts to obtain all consents necessary to assign the Transferred Contracts to New Regco. In order that New Regco may receive and realize the full benefit of the non-assigned Transferred Contracts, each of the Combining SROs if requested to do so by New Regco, shall hold such Transferred Contracts in trust for New Regco and all benefits derived from such Transferred Contracts shall be for the account of New Regco. New Regco shall take such action and do or cause to be done such things as are necessary or proper to ensure that the obligations of either of the Combining SROs under the non-assigned Transferred Contracts are performed and each of the Combining SROs shall take such actions and do or cause to be done such things as are necessary to ensure that the value of all of the Transferred Contracts are preserved and enure to the benefit of New Regco.

ARTICLE 3
LIABILITIES

3.1 Assumed Liabilities

Subject to Closing, New Regco agrees to discharge, perform and fulfill all of the obligations and liabilities of each of the Combining SROs with respect to the operations of RS and the IDA arising before, on or after the Effective Time (collectively, the “**Assumed Liabilities**”).

3.2 Assumption of Contractual Liabilities

Notwithstanding anything in this Agreement, New Regco does not assume and has no obligation to discharge any liability or obligation under, or in respect of, any Transferred Contracts (i) which is not assignable in whole or in part without the consent, approval or waive of the other party or parties to it, or (ii) which cannot be performed by New Regco without the consent of the other party or parties to it, unless, in either case, such consent, approval or waiver has been obtained on terms satisfactory to New Regco, acting reasonably, or whichever of the Combining SROs has held the Transferred Contract in trust for New Regco, has performed its obligations under 2.2 and the value of such Transferred Contract has enured to New Regco.

ARTICLE 4
CONSIDERATION

4.1 Consideration

The consideration payable by New Regco to each of the Combining SROs for the Transferred Assets will be the assumption of the Assumed Liabilities.

ARTICLE 5
CONTINUATION OF COMBINING SROS

5.1 Continuation

Following the transfer of the Transferred Assets and the assumption of the Assumed Liabilities, the IDA and RS will be continued for an indefinite period of time and will hold in trust for the benefit of New Regco any contracts which are not assigned to New Regco. New Regco will also act as agent for the IDA and RS in respect of disciplinary actions against persons subject to the jurisdiction of the IDA and RS prior to Closing. New Regco agrees to fund any expenses incurred by the IDA or RS carrying out such actions and the IDA and RS agree that any fines or settlement amounts arising from such actions will be for the account of the New Regco Restricted Fund.

ARTICLE 6
REPRESENTATIONS AND WARRANTIES OF RS AND THE IDA

6.1 Representations and Warranties

RS and the IDA each represent and warrant as follows to New Regco, and acknowledge and confirm that New Regco is relying upon such representations and warranties in connection with the acquisition of the Transferred Assets and the assumption by New Regco of the Assumed Liabilities:

- (1) **Incorporation and Qualification.** RS represents and warrants that it is a corporation incorporated and existing under the laws of Canada and has the corporate power to enter into and perform its obligations under this Agreement and each of the Ancillary Agreements to which it is a party;
- (2) **Qualification of IDA.** The IDA represents and warrants that it has been created and is existing as an unincorporated association under the laws of Canada and has the power to enter into and perform its obligations under this Agreement and each of the Ancillary Agreements to which it is a party;
- (3) **Corporate Authority.** Each of RS and the IDA represent and warrant that the execution and delivery of and performance by it of this Agreement and the Ancillary Agreements and the transfer of the Transferred Assets by the IDA and RS, as applicable, to New Regco has been authorized by all necessary corporate action on the part of each of them; and
- (4) **Execution and Binding Obligation.** Each of RS and the IDA represent and warrant that this Agreement and each Ancillary Agreement has been duly executed and delivered by it and constitutes a legal, valid and binding agreement of it, enforceable against it in accordance with their terms.

ARTICLE 7
NEW REGCO'S REPRESENTATIONS AND WARRANTIES

7.1 Representations and Warranties

New Regco represents and warrants as follows to each of the Combining SROs and acknowledges and confirms that the Combining SROs are relying on such representations and warranties in connection with the acquisition by New Regco of the Transferred Assets and assumption by New Regco of the Assumed Liabilities:

- (1) **Incorporation and Qualification.** New Regco is a corporation incorporated and existing as a corporation without share capital under Part II of the *Corporations Act* (Canada) and has the corporate power to enter into and perform its obligations under this Agreement and the Ancillary Agreements;

- (2) **Corporate Authority.** The execution and delivery of and performance by New Regco of this Agreement and the Ancillary Agreements have been authorized by all necessary corporate action on the part of New Regco; and
- (3) **Execution and Binding Obligation.** This Agreement and the Ancillary Agreements have been duly executed and delivered by New Regco and constitutes a legal, valid and binding agreement of New Regco enforceable against it in accordance with their terms.

ARTICLE 8
WAIVER OF COMPLIANCE WITH BULK SALES LAWS

The Parties hereby waive compliance with the *Bulk Sales Act* (Ontario) and any similar bulk sales laws.

ARTICLE 9
CONDITIONS OF CLOSING

9.1 Conditions of Closing

The acquisition and transfer of the Transferred Assets is subject to the following conditions to be fulfilled or performed, at or prior to Closing:

- (1) The covenants, representations and warranties of each Party contained in this Agreement shall be true and correct as of the Closing with the same force and effect as if such covenants, representations and warranties had been made on and as of such date;
- (2) Each Party shall have fulfilled or complied with all covenants contained in this Agreement to be fulfilled or complied with by it at or prior to Closing;
- (3) Upon Closing, TSX and the IDA shall have transferred all issued and outstanding shares in the capital of RS to New Regco.
- (4) All material consents, approvals and waivers required to transfer the Transferred Assets to New Regco and give effect to the combination of the operations of the IDA and RS, shall have been obtained;
- (5) The Requisite Approvals shall have been obtained;
- (6) Documentation in a form acceptable to New Regco from the workers' compensation boards in such jurisdictions in which either of the Combining SROs carry on business, confirming that as at the Effective Time, the relevant boards have no claim against either of the Combining SROs for which New Regco will be or could be liable in respect of any amounts payable pursuant to the relevant workers compensation legislation in respect of the operations of each of the Combining SROs;

- (7) The Combining SROs shall have executed, or shall have caused to be executed, all deeds, conveyances, assurances, transfers and assignments and other instruments, in form and substance satisfactory to all Parties, necessary or reasonably required to transfer the Transferred Assets to New Regco with a good title;
- (8) All necessary proceedings to be taken in connection with the transactions contemplated by this Agreement and any Ancillary Agreement shall be reasonably satisfactory in form and substance to New Regco, acting reasonably, and New Regco shall have received copies of all instruments and other evidence as it may reasonably request in order to establish the consummation of the transactions and the taking of all necessary corporate proceedings in connection therewith;
- (9) No action or proceeding shall be pending or threatened by any Person (other than one of the Parties) in any jurisdiction, to enjoin, restrict or prohibit any of the transactions contemplated by this Agreement or the right of New Regco to conduct the combined operations of the Combining SROs after Closing on substantially the same basis as heretofore operated; and
- (10) As at Closing, no event or condition shall have occurred, or shall exist, that individually or in the aggregate is or would reasonably be expected to be material and adverse to the condition (financial or otherwise), properties, assets, liabilities, obligations, business, operations or prospects of either of the Combining SROs or the Transferred Assets.

ARTICLE 10

LIMITATIONS OF LIABILITY

10.1 Disclaimer of Warranties

Except as provided in ARTICLE 6, the Transferred Assets are provided “AS IS” and “WHERE IS”, without warranty of any kind, and the Combining SROs expressly disclaim all warranties, conditions, undertakings or terms, express or implied, written or oral, including warranties of merchantability, fitness for a particular purpose or title to the Transferred Assets, and those arising by statute or from a course of dealing, usage or trade. The entire risk of loss as to the Transferred Assets is assumed by New Regco.

10.2 Limitation of Liability

Under no circumstances and under no legal theory, tort, contract or otherwise, shall the Combining SROs have any liability to New Regco or any other person or entity for any direct, indirect, incidental, special or consequential damages whatsoever, including but not limited to loss of revenue or profit, or other commercial or economic loss, even if New Regco has been advised of the possibility of such damages; nor shall the Combining SROs’ members and their representatives or the members, users or subscribers of or to marketplaces that have retained RS to be its regulation services provider have any such liability in connection with the transactions described in this Agreement.

10.3 Fundamental Breach

This ARTICLE 10 applies regardless of the basis on which New Regco is entitled to claim, including breach of contract or tort, even if the damages are caused by breach of contract (including fundamental breach), or by the negligence, gross negligence, negligent misrepresentation or other fault of the Combining SROs, and even if the Combining SROs have been advised of the possibility of these damages.

ARTICLE 11 CLOSING

11.1 Date, Time and Place of Closing

The completion of the transaction of purchase and sale contemplated by this Agreement shall take place at the offices of Stikeman Elliott, at 10:00 a.m. (Toronto time) on ●, 2008, or at such other place, on such other date and such other time as may be agreed to by the Boards of the IDA and RS following receipt of the Requisite Approvals (the “Closing”).

ARTICLE 12 TRANSFER OF ASSETS

12.1 Transfer of Assets

Subject to the satisfaction or waiver by the relevant Party of the conditions of closing, on Closing the Combining SROs shall deliver or cause to be delivered actual possession of the Transferred Assets and all necessary deeds, conveyances, assurances, transfers and assignments and any other instruments necessary or reasonably required to transfer the Transferred Assets to New Regco and upon such delivery, New Regco shall assume the Assumed Liabilities. The transfer of possession of the Transferred Assets shall be deemed to take effect at the Effective Time.

12.2 Shares of CDS and FundSERV

The transfer by the IDA to New Regco of the securities owned by the IDA in the capital of FundSERV Inc. and The Canadian Depository for Securities Limited (the “Securities”, which term shall include any securities into which the Securities are converted, exchanged, reclassified or reconstituted in any manner) as part of the Transferred Assets is subject to the agreement of New Regco (which is hereby acknowledged) that, for so long as New Regco is the beneficial owner of the Securities, any decision with respect to the voting, use or disposition of all or any of the Securities, or the application of any proceeds from such use or disposition (including, without limitation, any dividends or distributions thereon) shall be made solely by the persons who are at the relevant time Dealer Directors (as defined in New Regco’s By-laws at the date of this Agreement) and any such decision shall be binding on and complied with by New Regco. New Regco shall do all acts and things as may be necessary or desirable to carry out and achieve the intent of the foregoing agreement including, without limitation, providing to or to the direction of such Dealer Directors such proxies, powers of attorney, acknowledgements, notices or other instruments as may be requested.

ARTICLE 13 **TERMINATION**

13.1 Termination Rights

This Agreement may, by notice in writing given prior to or on Closing, be terminated:

- (i) by a determination of the board of directors of any of the Parties; or
- (ii) by any Party if any of the conditions in 9.1 have not been satisfied at or prior to Closing and New Regco has not waived such condition at or prior to Closing.

13.2 Effect of Termination

- (1) Each Party's right of termination under this Article constitutes its sole and exclusive remedy with respect to such termination.
- (2) If this Agreement is terminated pursuant to this 13.1, all obligations of the Parties under this Agreement will terminate, without penalty.

ARTICLE 14 **MISCELLANEOUS**

14.1 Time of the Essence

Time shall be of the essence of this Agreement.

14.2 Enurement

This Agreement shall become effective when executed by the Combining SROs and New Regco and after that time shall be binding upon and enure to the benefit of the parties and their respective, successors and permitted assigns. Neither this Agreement nor any of the rights or obligations under this Agreement shall be assignable or transferable by either party without the consent of the other party.

14.3 Entire Agreement

This Agreement together with the Schedules and Ancillary Agreements constitute the entire agreement between the parties with respect to the transactions contemplated in this Agreement and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties with respect to the subject matter of this Agreement. There are no representations, warranties, covenants, conditions or other agreements, express or implied, collateral, statutory or otherwise, between the parties in connection with the subject matter of this Agreement, except as specifically set forth in this Agreement. The parties have not relied and are not relying on any other information, discussion or understanding in entering into and completing the transactions contemplated by this Agreement.

14.4 Waiver

- (1) No waiver of any of the provisions of this Agreement shall be deemed to constitute a waiver of any other provision (whether or not similar), nor shall such waiver be binding unless executed in writing by the party to be bound by the waiver.
- (2) No failure on the part of the Combining SROs or New Regco to exercise, and no delay in exercising any right under this Agreement shall operate as a waiver of such right; nor shall any single or partial exercise of any such right preclude any other or further exercise of such right or the exercise of any other right.

14.5 Further Assurances

Each of the parties covenants and agrees to do such things, to attend such meetings and to execute such further conveyances, transfers, documents and assurances as may be deemed necessary or advisable from time to time in order to effectively transfer the Transferred Assets to New Regco and carry out the terms and conditions of this Agreement in accordance with their true intent.

14.6 Severability

If any provision of this Agreement shall be determined to be illegal, invalid or unenforceable by an arbitrator or any court of competent jurisdiction from which no appeal exists or is taken, that provision shall be severed from this Agreement and the remaining provisions shall continue in full force and effect.

14.7 Governing Law

This Agreement shall be governed by and interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

14.8 Counterparts

This Agreement may be executed in any number of counterparts (including counterparts by facsimile) and all such counterparts taken together shall be deemed to constitute one and the same instrument.

Remainder of page intentionally left blank.

IN WITNESS WHEREOF the parties have executed this Combination Agreement.

**MARKET REGULATION SERVICES
INC.**

By: _____
Name:
Title:

By: Name:
Title:

**INVESTMENT DEALERS
ASSOCIATION OF CANADA**

By: _____
Name:
Title:

NEW REGCO

By: _____
Name:
Title:

**SCHEDULE 3
Application for Letters Patent and By-Law No. 1**

**APPLICATION FOR INCORPORATION OF A CORPORATION WITHOUT
SHARE CAPITAL UNDER PART II OF THE CANADA CORPORATIONS ACT**

To the Minister of Industry Canada

I

The undersigned hereby apply to the Minister of Industry Canada for the grant of a charter by letters patent under the provisions of Part II of the *Canada Corporations Act* constituting the undersigned, and such others as may become members of the Corporation thereby created, a body corporate and politic under the name of

NEW REGCO

The undersigned have satisfied themselves and are assured that the proposed name under which incorporation is sought is not the same or similar to the name under which any other company, society, association or firm, in existence is carrying on business in Canada or is incorporated under the laws of Canada or any province thereof or so nearly resembles the same as to be calculated to deceive [**except that of ● which has signified its consent to the use of the said name**] and that it is not a name which is otherwise on public grounds objectionable.

II

The applicants are individuals of the full age of eighteen years with power under law to contract. The name, the address and the occupation of each of the applicants are as follows:

Ronald S. Lloyd Chairman and Chief Executive Officer Credit Suisse Securities (Canada) Inc. One First Canadian Place, Suite 3000 Toronto, ON M5X 1C9	Executive
---	------------------

William Moriarty Vice-Chairman RBC Capital Markets Royal Bank Plaza, South Tower 200 Bay Street, 2 nd Floor Toronto, ON M5J 2W7	Executive
--	------------------

Susan Wolburgh Jenah**Executive**

President and Chief Executive Officer
Investment Dealers Association of Canada
121 King Street West, Suite 1600
Toronto, ON M5H 3T9

The said Ronald S. Lloyd, William Moriarty and Susan Wolburgh Jenah will be the first directors of the Corporation.

III

The objects of the Corporation are:

To regulate as a self-regulatory organization in respect of persons who are or were formerly (i) dealer members of the Corporation, (ii) the members, users or subscribers of or to marketplaces, (iii) the respective representatives of any of the foregoing, and (iv) other persons subject to the jurisdiction of the Corporation, in order to protect investors, foster investor confidence and enhance the fairness, integrity and efficiency of Canadian capital markets.

IV

In pursuing its objects, the Corporation shall, at all times, remain independent of its members or the persons it regulates, seeking to ensure that it does not favour one over another and, in all cases, has primary regard for the public interest.

V

The operations of the Corporation may be carried on throughout Canada and elsewhere.

VI

The place within Canada where the head office of the Corporation is to be situated is the Municipality of Toronto, Province of Ontario.

VII

It is specifically provided that in the event of dissolution or winding-up of the Corporation all its remaining assets after payment of its liabilities shall not be distributed to its members, and shall be distributed to one or more tax exempt organizations carrying on similar activities or charitable organizations in Canada.

VIII

In accordance with Section 65 of the *Canada Corporations Act*, it is provided that, when authorized by by-law, duly passed by the directors and sanctioned by at least two-thirds of the votes cast at a special general meeting of the members duly called for considering the by-law, the directors of the Corporation may from time to time

- (a) Borrow money upon the credit of the Corporation;
- (a) Limit or increase the amount to be borrowed;
- (b) Issue debentures or other securities of the Corporation;
- (c) Pledge or sell such debentures or other securities for such sums and at such prices as may be deemed expedient; and
- (d) Secure any such debentures, or other securities, or any other present or future borrowing or liability of the Corporation, by mortgage, hypothec, charge or pledge of all or any currently owned or subsequently acquired real and personal, movable and immovable, property of the Corporation, and the undertaking and rights of the Corporation.

Any such by-law may provide for the delegation of such powers by the directors to such officers or directors of the Corporation to such extent and in such manner as may be set out in the by-law.

Nothing herein limits or restricts the borrowing of money by the Corporation on bills of exchange or promissory notes made, drawn, accepted or endorsed by or on behalf of the Corporation.

IX

The by-laws of the Corporation shall be those filed with the application for letters patent until repealed, amended, altered or added to.

X

The Corporation is to carry on its operations without pecuniary gain to its members and any profits or other accretions to the Corporation are to be used in promoting its objects.

DATED at the City of Toronto in the Province of Ontario, this ● day of ●, 2008.

William Moriarty

Ronald S. Lloyd

Susan Wolburgh Jenah

CANADA
PROVINCE OF ONTARIO

) IN THE MATTER OF the Application for
) Incorporation under Part II of the *Canada*
) *Corporations Act* under the name of ●
)
)

TO WIT:

I, Susan Wolburgh Jenah, of the City of Toronto in the Province of Ontario, do solemnly declare that:

- (1) I am one of the applicants herein.
- (2) I have knowledge of the matter, and that the statements in the annexed application contained are, to the best of my knowledge and belief, true in substance and in fact.
- (3) I am informed and believe that each applicant signing the said application is of the full age of eighteen years and has power under law to contract and that his or her name and description have been accurately set out in the preamble thereto.
- (4) The proposed corporate name of the company is not on any public grounds objectionable and that it is not that of any known company, incorporated or unincorporated, or of any partnership or individual, or any name under which any known business is being carried on, or so nearly resembling the same as to deceive.
- (5) I have satisfied myself and am assured that no public or private interest will be prejudicially affected by the incorporation of the company aforesaid.

AND I make this solemn declaration conscientiously believing it to be true and knowing that it is of the same force and effect as if made under oath and by virtue of the *Canada Evidence Act*.

SWORN BEFORE ME
at the City of Toronto in
the Province of Ontario
this ● day of ●, 2008.

)
)
)
) _____
) Susan Wolburgh Jenah
)
)
)
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)
)

A Commissioner, etc.

BY-LAW NO. 1

being a General By-law of a new self-regulatory organization to be created as a result of the merger of the Investment Dealers Association of Canada and Market Regulation Services Inc. and provisionally referred to as New Regco

(hereinafter referred to as the “**Corporation**”)

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ARTICLE 1 INTERPRETATION

Section 1.1 Definitions

In this By-law, unless the context otherwise specifies or requires:

“**Act**” means *the Canada Corporations Act*, R.S.C. 1970, c. C-32 as from time to time amended and every statute that may be substituted therefor and, in the case of such substitution, any references in the By-laws to provisions of the Act shall be read as references to the substituted provisions therefor in the new statute or statutes.

“**Associate**”, where used to indicate a relationship with any person, means:

- (a) any corporation of which such person beneficially owns, directly or indirectly, voting securities carrying more than ten percent (10%) of the voting rights attached to all voting securities of the corporation for the time being outstanding;
- (b) a partner of that person;
- (c) any trust or estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar capacity;
- (d) any relative of that person who resides in the same home as that person;
- (e) any person who resides in the same home as the person and to whom that person is married or with whom that person is living in a conjugal relationship outside of marriage; or
- (f) any relative of a person mentioned in clause (e) above, who has the same home as that person.

“**By-laws**” means this By-law and any other by-law of the Corporation from time to time in force and effect.

“**Board**” means the Board of Directors of the Corporation.

“**CDS**” means Canadian Depository for Securities Limited.

“**Chair**” means the Director elected by the Board to act as its chair.

“**CIPF**” means the Canadian Investor Protection Fund.

“**Corporation**” means New Regco.

“**Dealer Director**” means a Director, other than a Marketplace Director, who is a partner, director, officer, employee or a person acting in a similar capacity of:

- (a) a Dealer Member;
- (b) an Associate of a Dealer Member; or
- (c) an affiliated entity of a Dealer Member.

“**Dealer Member**” means a Member that is an investment dealer in accordance with securities legislation.

“**Director**” means a member of the Board.

“**District**” means a geographic area in Canada designated as a district of the Corporation by the Board, from time to time.

“**District Council**” means each of those Councils created in accordance with Article 10.

“**Indemnified Party**” means each Protected Party and any other person who has undertaken or is about to undertake any liability on behalf of the Corporation, or any entity controlled by it, which the Corporation determines to indemnify in respect of such liability and their respective heirs, executors, administrators, and estates and effects, respectively.

“**Independent Director**” means a Director who is not:

- (a) an officer (other than the Chair or any Vice-Chair) or an employee of the Corporation;
- (b) a person who qualifies as a Dealer Director or a Marketplace Director; or
- (c) an Associate of a partner, director, officer, employee or person acting in a similar capacity of a Dealer Member or Marketplace Member.

“**Industry Agreement**” means the agreement dated December 14, 2001 made between the Corporation and the CIPF, as the same may be amended or replaced from time to time.

“**Letters Patent**” means the letters patent of the Corporation and includes any supplementary letters patent.

“**Marketplace**” means a recognized exchange, a recognized quotation and trade reporting system or an alternative trading system, as each is defined in National Instrument 21-101.

“**Marketplace Director**” means a Director, other than a Dealer Director, who is a partner, director, officer, employee or person acting in a similar capacity of:

- (a) a Marketplace Member;
- (b) an Associate of a Marketplace Member; or
- (c) an affiliated entity of a Marketplace Member.

“Marketplace Member” means a Member that is a Marketplace.

“Market Share” means the proportion of trading activity of any particular Marketplace of the trading activity of all Marketplaces with respect to exchange-traded securities and foreign exchange-traded securities other than derivatives calculated as to one-third by trading value, one-third by trading volume and one-third by number of trades, all in the immediately preceding calendar year calculated in accordance with guidelines approved by the Board. In the event of a dispute as to the calculation, and following consideration by management and the Board of New Regco, the matter will be reported to the relevant members of the Canadian Securities Administrators (or any successor thereof).

“Member” means a person admitted to membership in the Corporation and who has not ceased, resigned or terminated membership in the Corporation in accordance with the provisions of Article 3.

“Non-Independent Director” means a Director who is neither the President nor an Independent Director.

“President” means the president and chief executive officer of the Corporation appointed in accordance with Section 8.3.

“Protected Party” means every current and former Director, officer, employee, committee member (whether a committee of the Board or other committee of the Corporation), and his or her heirs, executors, administrators, estate and effects or any other person acting on behalf of the Corporation.

“Regulated Persons” means persons who are or were formerly (i) Dealer Members, (ii) members, users or subscribers of or to Marketplaces for which the Corporation is the regulation services provider, (iii) the respective representatives as designated in the Rules of any of the foregoing, and (iv) other persons subject to the jurisdiction of the Corporation.

“Regulations” means the regulations made under the Act as from time to time amended and every regulation that may be substituted therefor and, in the case of such substitution, any references in the By-laws to provisions of the regulations shall be read as references to the substituted provisions therefor in the new regulations.

“Restricted Fund” means fine and settlement monies received by the Corporation.

“Rules” means the Rules made pursuant to Section 13.1.

“TSX” means TSX Inc. and any continuing or successor corporation.

“Vice-Chair” means a Director elected by the Board to act as its vice-chair.

Section 1.2 Interpretation

- (1) Unless otherwise defined or interpreted in this By-law or the Rules, every term used in this By-law or the Rules that is:

- (a) defined in subsection 1.1(3) of National Instrument 14-101 – Definitions has the meaning ascribed to it in that subsection; and
 - (b) defined or interpreted in National Instrument 21-101 - Marketplace Operation has the meaning ascribed to it in that National Instrument.
- (2) Subject to the By-laws and the Rules, any reference in this By-law or the Rules to a statute or a National Instrument refers to such statute or National Instrument and all rules and regulations made under it, as it may have been or may from time to time be amended or re-enacted.
- (3) In this By-law and the Rules and in all other By-laws hereafter passed and the Rules from time to time, unless the context otherwise requires, words importing the singular number or the masculine gender shall include the plural number or the feminine gender, as the case may be, and vice versa, and references to persons shall include, individuals, corporations, limited partnerships, general partnerships, joint ventures, associations, companies, trusts, societies or other entities, organizations and syndicates whether incorporated or not, trustees, executors, or other legal personal representatives, and any government or agency thereof. In the event of any dispute as to the meaning of the Letters Patent, By-laws or Rules, the interpretation of the Board shall be final and conclusive.

ARTICLE 2

AFFAIRS OF THE CORPORATION

Section 2.1 Seal

The seal, an impression of which is stamped in the margin hereof, shall be the seal of the Corporation.

Section 2.2 Head Office

Until changed in accordance with the Act, the head office of the Corporation shall be in the Municipality of Toronto, in the Province of Ontario.

Section 2.3 Financial Year

Until changed by the Board, the financial year of the Corporation shall end on the last day of March in each year.

Section 2.4 Execution of Instruments

Transfers, assignments, contracts, obligations, certificates and other instruments may be signed on behalf of the Corporation by any two officers of the Corporation appointed in accordance with Article 8 of this By-law. In addition, the Board may from time to time direct the manner in which and the person or persons by whom any particular instrument or class of instruments may or shall be signed. Any signing officer may affix the corporate seal to any instrument requiring the same, but it is not necessary to bind the Corporation.

Section 2.5 Banking Arrangements

The banking arrangements of the Corporation including, without limitation, the borrowing of money and the giving of security therefor, shall be transacted with such banks, trust companies or other bodies corporate or organizations as may from time to time be designated by or under the authority of the Board. Such banking business or any part thereof shall be transacted under such agreements, instructions and delegations of powers as the Board may from time to time prescribe or authorize.

Section 2.6 Voting Rights In Other Bodies Corporate

Any two officers of the Corporation appointed in accordance with Article 8 of this By-law may execute and deliver proxies and arrange for the issuance of voting certificates or other evidence of the right to exercise the voting rights attaching to any securities held by the Corporation. Such instruments, certificates or other evidence shall be in favour of such person or persons as may be determined by the officers executing such proxies or arranging for the issuance of voting certificates or such other evidence of the right to exercise such voting rights. In addition, the Board may from time to time direct the manner in which and the person or persons by whom any particular voting rights or class of voting rights may or shall be exercised.

Section 2.7 Divisions

In addition to any other powers of the Board, the Board may, without further approval, cause the operations of the Corporation or any part thereof to be divided or segregated into one or more divisions upon such basis, including without limitation, character or type of operations, geographical territories as the Board may consider appropriate in each case. From time to time the Board, or if authorized by the Board, the President, may authorize, upon such basis as may be considered appropriate in each case:

- (a) *Sub-Division and Consolidation*: The further division of the operations of any such division into sub-units and the consolidation of the operations of any such divisions and sub-units;
- (b) *Name*: The designation of any such division or sub-unit by, and the carrying on of the operations of any such division or sub-unit, under a name other than the name of the Corporation; provided that the Corporation shall set out its name in legible characters in all contracts, invoices, negotiable instruments and orders for goods or services issued or made by or on behalf of the Corporation; and
- (c) *Officers*: The appointment of officers for any such division or sub-unit, the determination of their powers and duties, and the removal of any such officer so appointed without prejudice to such officer's rights under any employment contract or in law, provided that any such officers shall not, as such, be officers of the Corporation, unless expressly designated as such in accordance with Article 8 of this By-law.

ARTICLE 3 CONDITIONS OF MEMBERSHIP

Section 3.1 Entitlement

The Board shall, in its discretion, decide (and may delegate to a committee of the Board or an officer of the Corporation the authority to so decide) upon all issues pertaining to eligibility for membership in accordance with the By-laws and Rules of the Corporation. The Board may, by the affirmative vote of a majority of the Directors at a meeting of the Board and sanctioned by the Members in accordance with Article 17, amend the By-law to add additional classes of Members and determine the rights and obligations pertaining to any added class. The first Members shall be the first three Directors of the Corporation until such Members elect the Board pursuant to Section 5.2 . Thereafter, there shall be two classes of Members, being Marketplace Members and Dealer Members.

Section 3.2 Dealer Members

Subject to the By-laws and the Act, Dealer Members shall be entitled to the rights and entitlements attaching to all Members.

Section 3.3 Marketplace Members

Subject to the By-laws and the Act, Marketplace Members shall be entitled to the rights and entitlements attaching to all Members.

Section 3.4 Fees

Membership and other fees and assessments may be established by the Board in the amounts and in accordance with the terms and conditions established by or under the authority of the Board. Fees shall be imposed on an equitable basis and, as a matter of best efforts, on a cost recovery basis to the extent practicable.

Section 3.5 Process for Approval for Membership of Dealer Members

- (1) In the case of Dealer Members, an application for membership must be submitted to the Corporation in the form and executed in the manner prescribed by or under the authority of the Board, and shall be accompanied by such fees, information and documents as the Corporation and the applicable District Council may require.
- (2) Any firm shall be eligible to apply for membership if:
 - (a) It is formed under the laws of one of the provinces or territories of Canada and, where the firm is a corporation, it is incorporated under the laws of Canada or one of its provinces or territories;
 - (b) It carries on, or proposes to carry on, business in Canada as an investment dealer and is registered or licensed in each jurisdiction in Canada where the nature of its business requires such registration or licensing, and is in compliance with such legislation and the requirements of any securities commission having jurisdiction over the applicant; and

- (c) Its directors, officers, partners, investors and employees, and its holding companies, affiliated entities and related companies (if any), would comply with the By-laws and Rules of the Corporation that would apply to them if the applicant were a Dealer Member.
- (3) An application for membership shall be accompanied by a non-refundable application review deposit in an amount to be determined by the Board, to be credited towards the annual fee paid by the Member in the event that the application is approved by the Board. Where, for any reason, the application process (other than an application of an alternative trading system) has not been completed within six months from the date the application was accepted for review by the Corporation, the deposit shall be forfeited to the Corporation and the application shall be required to be resubmitted with a new non-refundable application review deposit. For purposes of this Section, the application process shall be considered to be completed when Corporation staff recommends to the applicable District Council the approval or rejection thereof.
- (4) If in connection with the review or consideration of any application for membership, the applicable District Council or the Board is of the opinion that the nature of the applicant's business, its financial condition, the conduct of its business, the completeness of the application, the basis on which the application was made or any Corporation review in respect of the application in accordance with the By-laws and Rules of the Corporation has required, or can reasonably be expected to require, excessive attention, time and resources of the Corporation, such District Council or the Board may require the applicant to reimburse the Corporation for some or all of its costs and expenses which are reasonably attributable to such excessive attention, time and resources or provide an undertaking or security in respect of such reimbursement. If an applicant is to be required to make such reimbursement of costs and expenses, the Corporation shall provide to the applicant a breakdown and explanation of such costs and expenses in sufficient detail to permit the applicant to understand the basis on which the costs and expenses were or are to be calculated.
- (5) The process for review and approval of the application for membership shall be determined by or under the authority of the Board, and the Corporation shall make a preliminary review of the same and either:
 - (a) Where the application is incomplete, provide the applicant with a deficiency letter listing the items missing from or incomplete in the application, and, once Corporation staff have determined that the deficiencies have been addressed, perform a compliance review as referred to in Section 3.5(5)(b); or
 - (b) Where the application is complete, perform a compliance review and either:
 - (i) If such review discloses substantial compliance and willingness to comply with the requirements of the By-laws and Rules of the Corporation and approval of the application is considered to be in the public interest, forward a Corporation staff recommendation to

approve the application to the applicable District Council for consideration along with the membership application; or

- (ii) If such review discloses any substantial non-compliance or unwillingness to comply with the requirements of the By-laws and Rules of the Corporation, notify the applicant as to the nature of such non-compliance or unwillingness to comply and request that the application for membership be amended in accordance with the notification of the Corporation and refiled or be withdrawn. Once Corporation staff have determined that the necessary amendments have been made to the refiled application for membership, forward a Corporation staff recommendation to approve the application to the applicable District Council for consideration along with the membership application. If the applicant declines to amend or withdraw the application for membership, forward a Corporation staff recommendation to refuse the application to the applicable District Council for consideration along with the membership application and provide a copy of the recommendation to the applicant; or
 - (iii) If such review indicates that approval of the application is not in the public interest, notify the applicant as to the nature of the public interest concerns and request that the application for membership be withdrawn. If the applicant declines to withdraw the application for membership, forward a Corporation staff recommendation to refuse the application to the applicable District Council for consideration along with the membership application and provide a copy of the recommendation to the applicant.
- (6) Once the application for membership has been determined to be complete pursuant to Section 3.5(5), the Corporation shall notify all Dealer Members of the receipt of the application for membership. Any Dealer Member may, within fifteen days from the date of the mailing of such notification, lodge with the Corporation a written objection to the admission of the applicant. Any objections shall be forwarded to the applicable District Council for consideration along with the membership application.
- (7) The membership application approval process, as set out in the Corporation's By-laws and Rules established from time to time, shall commence once the applicable District Council receives:
- (a) The membership application from Corporation staff;
 - (b) Notification from Corporation staff that the fifteen day period referred to in Section 3.5(6) has expired;
 - (c) Copies of any objection letters referred to in Section 3.5(6) that have been submitted relating to the application; and

- (d) The Corporation staff recommendation to either approve or refuse the application pursuant to Section 3.5(5)
- (8) The Board shall, in its discretion and pursuant to the membership application approval process, as set out in the Corporation's By-laws and Rules established from time to time, decide (and may delegate to a committee of the Board or an officer of the Corporation the authority to so decide) upon all applications for membership but shall not consider or approve any application unless and until it has been considered by the applicable District Council and a recommendation has been received from such applicable District Council as to the approval (with or without terms and conditions) or refusal of the application.
- (9) If the Board approves an application subject to terms and conditions as determined by or under the authority of the Board or refuses an application, the applicant shall be provided with a statement of the grounds upon which the Board has approved the application subject to terms and conditions or refused the application, and the particulars of those grounds.
- (10) The Board may as it considers appropriate vary or remove any such terms and conditions as may have been imposed on an applicant, if such terms and conditions are or are no longer, as the case may be, necessary to ensure that the By-laws and Rules will be complied with by the applicant. In the event that the Board proposes to vary terms and conditions in a manner which would be more burdensome to the applicant, the provisions of Section 3.5(9) shall apply in the same manner as if the Board was exercising its powers thereunder in regard to the applicant.
- (11) If, pursuant to the provisions of Section 3.5(9), the Board approves an application subject to terms and conditions or refuses an application, the Board may order that the applicant may not apply for removal or variation of terms and conditions or reapply for approval, for such period as the Board provides.
- (12) Actions upon Approval of Application:
 - (a) If and when the application is approved by the Board, the Corporation shall compute the amount of the annual fee to be paid by the applicant.
 - (b) If and when the application has been approved by the Board, and the applicant has, if required to do so, been duly licensed or registered under applicable law of the province or provinces or territories in Canada in which the applicant carries on or proposes to carry on business, and upon payment of the balance of the entrance and annual fees, the applicant shall become and be a Dealer Member; and
 - (c) The Corporation shall keep a register of the names and business addresses of all Dealer Members and of their respective annual fees. The annual fees of Dealer Members shall not be made public by the Corporation.

- (13) A decision by the Board (or a committee or other authorized delegate) with respect to a membership application shall, at the request of the applicant or Corporation staff, be subject to review in accordance with the membership application process as set out in the Corporation's By-laws and Rules established from time to time.

Section 3.6 Acceptance of Membership for Marketplace Members

If a Marketplace has requested that the Corporation act as the regulation services provider for that Marketplace, the Marketplace shall be accepted as a Marketplace Member effective upon the execution of an agreement with the Marketplace that has been authorized by the Board, for the Corporation to be the regulation services provider to that Marketplace. A Marketplace shall cease to be a Marketplace Member upon the termination of the agreement for the Corporation to be the regulation services provider to the Marketplace.

Section 3.7 Amalgamation of Members

If two or more Members propose to amalgamate and continue as one Member, the continuing Member shall not be considered to be a new Member or be required to re-apply for membership, except as otherwise determined by the Board and provided that the continuing Member otherwise complies with the By-laws and Rules including the payment of Member fees, if applicable.

Section 3.8 Dealer Member Resignation

Subject to Section 13.5, a Dealer Member wishing to resign shall address a letter of resignation to the Board in the form and containing such information prescribed by the Board which resignation shall become effective when approved by the Board, in accordance with the Rules. A Dealer Member resigning from the Corporation shall make full payment of its annual fee, if applicable, for the financial year in which its resignation becomes effective.

Section 3.9 Dealer Member Removal

Unless a Dealer Member has voluntarily resigned, the Board may terminate the membership of any Dealer Member in accordance with the By-laws and Rules.

Section 3.10 Transferability

Membership is not transferable, unless approved by the Board.

ARTICLE 4 MEMBERS' MEETINGS

Section 4.1 Annual Meeting

The annual meeting of the Members shall be held on a date to be determined by the Board, but in any case shall be held within six months after the end of the Corporation's fiscal year. Each annual meeting shall be held at the head office of the Corporation or at any other place in Canada as the Board may determine. The Members may resolve that a particular meeting of Members may be held outside of Canada. At every annual meeting, in addition to any other business that may be transacted, the report of the Directors, the

financial statements and the report of the auditors shall be presented and auditors shall be appointed for the ensuing year.

Section 4.2 Special or General Meetings

Members may consider and transact any business either special or general at any meeting of the Members. The Board, the Chair, Vice-Chair, the President, or a designated vice-president shall have power to call, at any time, a general meeting of the Members. The Board shall call a special general meeting of Members on written requisition of Members representing not less than twenty percent of the number of Members.

Section 4.3 Quorum

Unless otherwise provided by the Act, the Letters Patent or any other By-law, twenty percent of Members shall constitute a quorum at any meeting of the Members provided such Members are present in person or represented by a duly appointed proxyholder. If a quorum is present at the opening of any meeting of Members, the Members present or represented by proxy may proceed with the business of the meeting notwithstanding that a quorum is not present throughout the meeting. If a quorum is not present at the opening of any meeting of Members, the Members present or represented by proxy may adjourn the meeting to a fixed time and place but may not transact any other business.

Section 4.4 List of Members Entitled to Notice

For every meeting of Members, the Corporation shall prepare a list, in alphabetic order and arranged by class, of Members entitled to receive notice of and vote at the meeting. The Members listed shall be those registered at the close of business on the day immediately preceding the day on which notice of the meeting is given. The list shall be available for examination by any Member during usual business hours at the head office of the Corporation and at the meeting for which the list was prepared.

Section 4.5 Notice

Fourteen days notice shall be given to each Member of any annual or special general meeting of Members in the manner prescribed by the Rules and Policies. Notice of any meeting where special business will be transacted shall contain sufficient information to permit the Member to form a reasoned judgement on the decision to be taken upon which the Member is entitled to vote. Notice of each meeting of Members must remind the Member entitled to vote that the Member has the right to vote by proxy, and must attach a form of proxy.

Section 4.6 Proxies

- (1) Votes at meetings of the Members may be given either personally or by proxy or, in the case of a Member who is a body corporate or association, by an individual authorized by a resolution of the Board or governing body of the body corporate or association to represent it at meetings of the Members of the Corporation. At every meeting at which a Member is entitled to vote, every Member and/or person appointed by proxy to represent one or more Members and/or individuals so authorized to represent a Member who is present in person shall have one vote on a

- show of hands. Upon a poll and subject to the By-laws, every Member who is entitled to vote at the meeting and who is present in person or represented by an individual so authorized shall have one vote and every person appointed by proxy shall have one vote for each Member who is entitled to vote at the meeting and who is represented by such proxyholder.
- (2) A proxy shall be executed by the Member or the Member's attorney authorized in writing or, if the Member is a body corporate or association, by an officer or employee of a Member or of an affiliated entity of a Member.
 - (3) A person appointed by proxy must be a director, officer or employee of a Member or of an affiliated entity of a Member.
 - (4) The Board may from time to time establish requirements regarding the lodging of proxies at some place or places other than the place at which a meeting or adjourned meeting of Members is to be held and for particulars of such proxies to be sent by facsimile or in writing before the meeting or adjourned meeting to the Corporation or any agent of the Corporation for the purpose of receiving such particulars and providing that proxies so lodged may be voted upon as though the proxies themselves were produced at the meeting or adjourned meeting and votes given in accordance with such requirements shall be valid and shall be counted. The chair of any meeting of Members may, subject to any requirements established as aforesaid, in the chair's discretion accept facsimile or written communication as to the authority of any person claiming to vote on behalf of and to represent a Member notwithstanding that no proxy conferring such authority has been lodged with the Corporation, and any votes given in accordance with such facsimile or written communication accepted by the chair of the meeting shall be valid and shall be counted.

Section 4.7 Votes

The voting rights of the Members at any meeting of Members shall be as follows:

- (a) In the case of a vote for the election of Directors, each Member present at a meeting to elect such Directors shall have the right to exercise one vote. A majority of votes cast by the Members, voting together, present and carrying voting rights shall elect a nominee;
- (b) In the case of a vote for the removal of a Director, each Member present at a meeting to consider the removal of the Director shall have the right to exercise one vote. Two-thirds of the votes cast by the Members, voting together, present and carrying voting rights to remove a Director shall remove such Director from office;
- (c) In the case of a vote for the repeal, amendment or enactment of a By-law or to authorize an application for supplementary Letters Patent (including increasing the size of the Board or adding new classes of members) or to approve the sale or transfer of all or substantially all the Corporation's assets,

or an amalgamation or plan of arrangement, each Member shall have the right to exercise one vote at a meeting at which such approval is required, and except as required by the Letters Patent or the Act, every such question shall be decided by at least two-thirds of the votes cast on the question by the Members, voting together, present and carrying voting rights;

- (d) On all other questions or matters to be decided at a meeting, each Member present at a meeting shall have the right to exercise one vote. A majority of votes cast by all Members, voting together, present and carrying voting rights shall decide the question or matter.

Section 4.8 Meetings by Conference Telephone

- (1) A Member may participate in a meeting of the Members by means of teleconference or by other electronic means that permit all persons participating in the meeting to communicate adequately with each other, and a Member participating in such a meeting by such means is deemed to be present at the meeting.
- (2) At the outset of each meeting referred to in subsection (1) and whenever votes are required, the chair of the meeting shall establish the existence of a quorum and unless a majority of the Members present at such meeting otherwise require, adjourn the meeting to a predetermined date, time and place whenever not satisfied that the proceedings of the meeting may proceed with adequate security and confidentiality.

Section 4.9 Chair, Secretary and Scrutineers

The chair of any meeting of Members shall be the first mentioned of such of the following officers as have been appointed and who is present at the meeting: Chair, Vice-Chair, or the President. If no such officer is present within fifteen minutes from the time fixed for holding the meeting, the persons present and entitled to vote on behalf of Members shall choose one of their number to be chair. If the secretary of the Corporation is absent, the chair shall appoint an individual who is authorized to vote on behalf of a Member to act as secretary of the meeting. If desired, one or more scrutineers, who need not be Members, may be appointed by a resolution or by the chair with the consent of the meeting.

Section 4.10 Persons Entitled to be Present

The only persons entitled to be present at a meeting of Members shall be those entitled to vote thereat, the Directors and auditor of the Corporation and others who, although not entitled to vote, are entitled or required under any provision of the Act, the Letters Patent or By-laws to be present at the meeting. Any other person may be admitted only on the invitation of the chair of the meeting or with the consent of the meeting.

Section 4.11 Show of Hands

Subject to the provisions of the Act, any question at a meeting of Members shall be decided by a show of hands, unless a ballot thereon is required or demanded in accordance with Section 4.12. Subject to the By-laws, upon a show of hands, every person who is present and entitled to vote on behalf of a Member shall have one vote. Whenever a vote by

show of hands shall have been taken upon a question, unless a ballot thereon is so required or demanded, a declaration by the chair of the meeting that the vote upon the question has been carried or carried by a particular majority or not carried and an entry to that effect in the minutes of the meeting shall be *prima facie* evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against any resolution or other proceeding in respect of the said question, and the result of the vote so taken shall be the decision of the Members upon the said question.

Section 4.12 Ballots

On any question proposed for consideration at a meeting of Members, and whether or not a show of hands has been taken thereon, the chair or any person who is present and entitled to vote, whether as proxyholder or representative, on such questions at the meeting may demand a ballot. A ballot so required or demanded shall be taken in such manner as the chair shall direct. A requirement or demand for a ballot may be withdrawn at any time prior to the taking of the ballot. If a ballot is taken each person present shall be entitled to that number of votes provided by the By-laws and the result of the ballot so taken shall be the decision of the Members upon the said question.

Section 4.13 Adjournment

The chair at a meeting of Members may, with the consent of the meeting and subject to such conditions as the meeting may decide, adjourn the meeting from time to time and place to place. If a meeting of Members is adjourned for less than thirty days, it shall not be necessary to give notice of the adjourned meeting, other than by announcement at the earliest meeting that is adjourned.

ARTICLE 5 BOARD OF DIRECTORS

Section 5.1 Number and Qualifications

Subject to the Letters Patent, the Board shall be comprised of fifteen Directors. Directors must be individuals, 18 years of age, with power under law to contract. A majority of the Directors shall be resident Canadians. Directors need not be Members.

Section 5.2 First Directors

The applicants for incorporation shall become the first three Directors of the Corporation whose term of office on the Board shall continue until their successors are elected. At the first meeting of Members, the Board then elected may replace the Directors named in the Letters Patent.

Section 5.3 Director Representation

- (1) At all times, the Board shall consist of an uneven number of Directors, which shall include the President and an equal number of Independent Directors and Non-Independent Directors; and

- (2) Subject to Section 5.2, the Board shall be comprised of fifteen Directors as follows:
- (i) Two Marketplace Directors,
 - (ii) Five Dealer Directors,
 - (iii) Seven Independent Directors, and
 - (iv) The President who shall be appointed to the Board.

Section 5.4 Election and Term

- (1) With the exception of the Directors elected at the first annual meeting of Members, the term of each Dealer Director, Independent Director and Marketplace Director elected at a meeting of Members shall expire at the dissolution or adjournment of the second annual meeting of Members following the annual meeting of Members at which the Director was elected.
- (2) At the first annual meeting of Members, fourteen Directors shall be elected and the Board shall designate:
- (a) Three of the positions of Independent Director, two of the positions of Dealer Director and one of the positions of Marketplace Director to be for a term that shall expire at the second annual meeting of Members; and
 - (b) Four of the positions of Independent Director, three of the positions of Dealer Director and one of the positions of Marketplace Director to be for a term that shall expire at the third annual meeting of Members.
- (3) With the exception of the President, a Director may be elected to serve four consecutive terms in office but shall not be eligible to be elected to serve a fifth consecutive term. Those Directors elected at the first annual meeting of Members to serve for an initial one year term shall be limited to three additional consecutive terms in office.

Section 5.5 Recommendation of Director Nominees for Election

- (1) Prior to each annual meeting of Members at which Directors are to be elected:
- (a) The Corporate Governance Committee shall review and select for recommendation to the Board as nominees such number of qualified candidates for election as Dealer Directors, Marketplace Directors and Independent Directors as are to be elected at the annual meeting. The Corporate Governance Committee will evaluate individual candidates based on their ability to contribute a range of knowledge, skills and experience and having regard for the required composition of the Board and the fact that the Board, as a whole, should be representative of the Corporation's various stakeholders;

- (b) In selecting nominees for election at a particular annual meeting the Corporate Governance Committee shall ensure that, if each of the nominees is elected, the Board would have:
 - (i) at least one Director, who need not be a Marketplace Director, with experience and expertise in respect of public venture equity markets,
 - (ii) a Marketplace Director recommended by TSX for nomination by the Corporate Governance Committee if, at the date of the selection of nominees:
 - (A) TSX is a Member, and
 - (B) the aggregate of the Market Share of TSX and each Marketplace that is an associate or an affiliated entity of TSX is not less than forty percent, and
 - (iii) at least one Director, who need not be a Marketplace Director, who is a partner, director, officer or employee of:
 - (A) a Marketplace,
 - (B) an associate of a Marketplace, or
 - (C) an affiliated entity of a Marketplace,other than TSX or a Marketplace that is an associate or an affiliated entity of TSX; and
 - (c) If a Marketplace Director recommended for nomination by TSX is to be elected at the annual meeting, TSX shall notify the secretary of the Corporation in writing of the recommendation of a qualified candidate for nomination and election as one of the Marketplace Directors.
- (2) The Board shall nominate for election to the Board at the annual meeting the persons as determined in accordance with this Section 5.5.
 - (3) The Members shall not elect to the Board at any annual meeting any person who has not been nominated by the Board in accordance with this Section 5.5.

Section 5.6 Vacancies

The office of Director shall be automatically vacated:

- (a) If a resolution to remove the Director has been approved by the Members in accordance with Section 4.7(b);
- (b) In the case of a Director appointed to the Board by reason of holding the office of President, if the Director ceases to be President;

- (c) In the case of an Independent Director, if the Director ceases to be qualified as an Independent Director;
- (d) If a Director shall have resigned the office by delivering a written resignation to the secretary of the Corporation;
- (e) If the Director is found by a court to be of unsound mind;
- (f) If the Director becomes bankrupt; or
- (g) If the Director dies.

Section 5.7 Filling Vacancies

If a vacancy in the Board shall occur for any reason, the vacancy shall be filled (allowing a reasonable period of time for doing so) for the balance of the term of the Director that vacated the office by a resolution passed by the Board appointing a Director, provided that:

- (a) If the vacancy is caused by the departure of the President, the person to be appointed to the office of the President has been appointed by the Board;
- (b) If the vacancy is caused by the departure of an Independent Director, Dealer Director or Marketplace Director, the person to be appointed has been identified and recommended by the Corporate Governance Committee and in the case of a vacancy of:
 - (i) an Independent Director, the person recommended is qualified as an Independent Director,
 - (ii) a Dealer Director, the person recommended is qualified as a Dealer Director, and
 - (iii) a Marketplace Director, the person recommended is qualified as a Marketplace Director;
- (c) In recommending a person for appointment to fill a vacancy the Corporate Governance Committee shall ensure that, if the person recommended is appointed, the Board would have:
 - (i) at least one Director, who need not be a Marketplace Director, with particular experience and expertise in respect of public venture equity markets,
 - (ii) a Marketplace Director recommended for appointment by TSX if, at the date of the recommendation:
 - (A) TSX is a Member, and

- (B) the aggregate of the Market Share of TSX and each Marketplace that is an associate or an affiliated entity of TSX is not less than forty percent, and
- (iii) at least one Director, who need not be a Marketplace Director, who is a partner, director, officer or employee of:
 - (A) a Marketplace,
 - (B) an associate of a Marketplace, or
 - (C) an affiliated entity of a Marketplace,

other than TSX or a Marketplace that is an associate or an affiliated entity of TSX;

- (d) If a Marketplace Director recommended for appointment by TSX is to be appointed, TSX shall notify the secretary of the Corporation in writing of the recommendation of a qualified candidate for appointment; and
- (e) If the vacancy is caused by the failure to elect the required number of Directors, the Board may appoint a Director to fill the vacancy on the basis that the vacancy arose by reason of the departure of an Independent Director, Dealer Director or Marketplace Director (including a Marketplace Director to be recommended by TSX) and the provisions of subsections 5.7(b), (c) and (d) shall apply according to whether the vacancy relates to an Independent Director, Member Director or Marketplace Director, as the case may be.

Section 5.8 Remuneration of Directors

The Board may determine from time to time such reasonable remuneration, if any, to be paid to the Independent Directors for serving as such and the Board may determine that such remuneration need not be the same for all Directors. Non-Independent Directors shall not receive remuneration for serving as such. Directors may be reimbursed for reasonable expenses incurred by a Director in the performance of the Director's duties.

Section 5.9 Release of Claims

When a Director ceases to hold office, the Corporation shall release a resigning or departing Director of all claims with respect to any matter or thing up to and including the resignation or departure in the capacity as a Director, except for any claims (other than to the extent the Director is indemnified by the Corporation pursuant to Section 9.2) which might arise out of the gross negligence or fraud of the resigning or departing Director.

ARTICLE 6 POWERS OF DIRECTORS

Section 6.1 Administer Affairs

The Board shall supervise the management of the affairs of the Corporation. Subject to the By-laws and the Act, the powers of the Board may be exercised by resolution passed at a meeting at which a quorum is present or by resolution in writing signed by all the Directors entitled to vote on that resolution at a meeting of the Board. If there is a vacancy on the Board, the remaining Directors may exercise all the powers of the Board so long as a quorum remains in office.

Section 6.2 Expenditures

The Board shall have power to authorize expenditures on behalf of the Corporation from time to time and may delegate by resolution to an officer or officers of the Corporation the right to employ and pay salaries to employees.

Section 6.3 Borrowing Power

- (1) The Board is hereby authorized, from time to time, without the authorization of the Members:
 - (a) To borrow money upon the credit of the Corporation;
 - (b) To limit or increase the amount to be borrowed;
 - (c) To issue or cause to be issued, bonds, debentures or other securities of the Corporation and to pledge or sell the same for such sums, upon such terms, covenants and conditions and at such prices as may be deemed expedient by the Board;
 - (d) To secure any such bond, debentures or other securities, or any other present or future borrowing or liability of the Corporation, by mortgage, hypothec, charge or pledge of all or any currently owned or subsequently acquired real and personal, movable and immovable, property of the Corporation, and the undertaking and rights of the Corporation; and
 - (e) Delegate to a committee of the Board, a Director or an officer or officers of the Corporation all or any of the powers conferred on the Board under this subsection to such extent and in such manner as the Board may determine at the time of such delegation.
- (2) The powers hereby conferred shall be deemed to be in supplement of and not in substitution for any powers to borrow money for the purposes of the Corporation possessed by its Directors or officers independently of this By-law.

Section 6.4 Conflict of Interest

- (1) A Director who is in any way directly or indirectly interested in a contract or proposed contract with the Corporation shall make the disclosure required by the Act and except as provided by the Act, no such Director shall vote on any resolution to approve any such contract. In supplement of and not by way of limitation upon any rights conferred upon Directors by Section 98 of the Act and specifically subject to the provisions contained in that Section, it is declared that no Director shall be disqualified from any such office by, or vacate any such office by reason of, holding any office with the Corporation or with any corporation in which the Corporation shall be a shareholder or by reason of being otherwise in any way directly or indirectly interested or contracting with the Corporation as vendor, purchaser or otherwise or being concerned in any contract or arrangement made or proposed to be entered into with the Corporation in which the Director is in any way directly or indirectly interested as vendor, purchaser or otherwise. Subject to compliance with the Act, no contract or arrangement entered into by or on behalf of the Corporation in which any Director shall be in any way directly or indirectly interested shall be void or voidable and no Director shall be liable to account to the Corporation or any of its Members or creditors for any profit realized by or from any such contract or arrangement by reason of any fiduciary relationship. Notwithstanding the foregoing prohibitions on voting by a Director, such Director may be present at and counted to determine the presence of a quorum at the relevant meeting of Directors.
- (2) A Director who is a party to, or who is a director, officer or employee of or has a material interest in any person who is a party to, a regulatory matter or regulatory investigation in which the Corporation is involved shall disclose the nature and extent of his or her interest at the time and in the manner required by subsection 6.4(1) for an interest in a contract or transaction. Such Director shall not vote on any such matter or investigation, and shall withdraw from the part of any meeting of the Board at which the matter or investigation is discussed or considered, if such matter or investigation is directed specifically at or otherwise directly relates to the Director or a person of which he or she is an employee, officer or director or in which he or she has a material interest.

**ARTICLE 7
DIRECTORS' MEETINGS**

Section 7.1 Place of Meeting

Meetings of the Board may be held at any place to be determined by the Board, inside or outside of Canada.

Section 7.2 Calling of Meetings

Meetings of the Board shall be held from time to time at such time as the Board, the Chair, the President, or any two Directors may determine.

Section 7.3 Notice of Meetings

Forty-eight hours written notice of any meeting of the Board shall be given, other than by mail, to each Director. Notice by mail shall be sent at least fourteen days prior to the meeting. There shall be at least one meeting per calendar quarter of the Board. Any notice shall describe the matters to be addressed at the meeting. A meeting of the Board shall be held immediately following an annual meeting without notice, provided a quorum is present.

Section 7.4 Adjourned Meeting

Notice of an adjourned meeting of the Board is not required if the time and place of the adjourned meeting is announced at the original meeting.

Section 7.5 Regular Meetings

The Board may appoint a day or days in any month or months for regular meetings of the Board at a place and hour to be named. A copy of any resolution of the Board fixing the place and time of such regular meetings shall be sent to each Director forthwith after being passed, but no other notice shall be required for any such regular meeting except where the Act requires the purpose thereof or the business to be transacted thereat to be specified and except where non-routine business is to be discussed.

Section 7.6 Chair of Meetings of the Board

The chair of any meeting of the Board shall be the first mentioned of such of the following officers as have been appointed and who is a Director and is present at the meeting: Chair, Vice-Chair or the President. If no such officer is present, the Directors present shall choose one of their number to be chair.

Section 7.7 Voting Rights

Each Director is authorized to exercise one vote at all meetings of the Board, and except as required by the Letters Patent or the Act, every question shall be decided by a majority of the votes cast on the question and, in case of an equality of votes, the chair of the meeting shall not be entitled to a second or casting vote.

Section 7.8 Meetings by Conference Telephone

- (1) A Director may participate in a meeting of the Board or of a committee of the Board by means of teleconference or by other electronic means that permit all persons participating in the meeting to communicate adequately with each other, and a Director participating in such a meeting by such means is deemed to be present at the meeting.
- (2) At the outset of each meeting referred to in the foregoing subsection and whenever votes are required, the chair of the meeting shall establish the existence of a quorum and, unless a majority of the Directors present at such meeting otherwise require, adjourn the meeting to a predetermined date, time and place whenever not satisfied that the proceedings of the meeting may proceed with adequate security and confidentiality.

Section 7.9 Quorum

A majority of the Directors in office including at least fifty percent of the Independent Directors in office from time to time shall constitute a quorum for meetings of the Board. Any meeting of the Board at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions by or under the By-laws.

Section 7.10 Minutes of Meetings

The minutes of the Board shall not be available to the Members but shall be available to the Directors, each of whom shall receive a copy of such minutes.

Section 7.11 Resolution in Lieu of Meeting

If permitted by law, a resolution in writing, signed by all the Directors entitled to vote on that resolution at a meeting of the Board or committee thereof, is as valid as if it had been passed at a meeting of the Board or a committee thereof.

**ARTICLE 8
OFFICERS**

Section 8.1 Appointment

The Board may annually or more often as may be required, appoint a Chair, a Vice-Chair, a President, one or more vice-presidents, a secretary and any such other officers as the Board may determine, including one or more assistants to any of the officers so appointed. The Board may specify the duties of and, in accordance with this By-law and subject to the provisions of the Act, delegate to such officers powers to manage the affairs of the Corporation. Except as otherwise provided in this By-law, officers need not be Directors, nor Members.

Section 8.2 Chair and Vice-Chair of the Board

The Board shall from time to time appoint a Chair of the Board and may appoint one or more Vice-Chairs of the Board who shall be Directors and may not be President. If appointed, the Board may assign to them any of the powers and duties that are by any provisions of a By-law assigned to the President, and they shall, subject to the provisions of the Act, have such other powers and duties as the Board may specify. During the absence or disability of the Chair, the Vice-Chair shall perform the duties and exercise the powers of Chair.

Section 8.3 President and Chief Executive Officer

The Board shall appoint a President, who shall also be appointed as the chief executive officer. The President shall have such powers and duties as the Board may specify.

Section 8.4 Vice-President

A vice-president shall have such powers and duties as the Board or the President may specify.

Section 8.5 Secretary

The secretary shall attend and be the secretary of all meetings of the Board (or arrange for another individual to so act), Members and committees of the Board and shall enter or cause to be entered in records kept for that purpose minutes of all proceedings thereat; the secretary shall give or cause to be given, as and when instructed, all notices to Members, Directors, officers, auditors and members of committees of the Board; the secretary shall be the custodian of the stamp or mechanical device generally used for affixing the corporate seal of the Corporation and of all books, papers, records, documents, and instruments belonging to the Corporation, except when some other officer or agent has been appointed for that purpose; and the secretary shall have such other powers and duties as the Board or the President may specify.

Section 8.6 Powers and Duties of Other Officers

The powers and duties of all other officers shall be such as the terms of their engagement call for or as the Board or the President may specify. Any of the powers and duties of an officer to whom an assistant has been appointed may be exercised and performed by such assistant, unless the Board or the President otherwise directs.

Section 8.7 Variation of Powers and Duties

The Board may from time to time and subject to the provisions of the Act, vary, add to or limit the powers and duties of any officer.

Section 8.8 Term of Office

The Board, in its discretion, may remove any officer of the Corporation, without prejudice to such officer's rights under any employment contract. Otherwise, each officer appointed by the Board shall hold office until his or her successor is appointed, or until his or her earlier resignation.

Section 8.9 Terms of Employment and Remuneration

The terms of employment and the remuneration of an officer appointed by the Board shall be settled by the Board from time to time or by a committee of the Board appointed for that purpose.

Section 8.10 Conflict of Interest

An officer shall disclose any interest in any material contract or proposed material contract with the Corporation.

Section 8.11 Agents and Attorneys

The Corporation, by or under the authority of the Board, shall have power from time to time to appoint agents or attorneys for the Corporation in or outside Canada with such powers of management, administration or otherwise (including the power to sub-delegate) as may be thought fit, subject to the provisions of the Act.

**ARTICLE 9
PROTECTION OF DIRECTORS AND OTHERS**

Section 9.1 Limitation of Liability

No Protected Party shall be liable for the acts, neglect or defaults of any other Protected Party, or for any other loss, damage or misfortune whatsoever which shall happen in the execution of the duties of his or her office or position or in relation thereto unless the same are occasioned by his or her own wilful neglect or default.

Section 9.2 Indemnities to Directors and Others

(1) Each Indemnified Party shall, from time to time and at all times, be indemnified and saved harmless out of the funds of the Corporation, from and against:

- (a) all costs, charges, fines, damages and penalties and expenses whatsoever that such Indemnified Party sustains or incurs in or about or to settle any action, suit or proceeding which is threatened, brought, commenced or prosecuted against him or her, or in respect of any act, deed, matter or thing whatsoever, made, done or permitted by him or her, in or about the execution of the duties of his or her office or position or in respect of any such liability including those duties executed, whether in an official capacity or not, for or on behalf of or in relation to any body corporate or entity which he or she serves or served at the request of or on behalf of the Corporation; and
- (b) all other costs, charges and expenses which he or she sustains or incurs in or about or in relation to the affairs thereof, including an amount representing the value of time any such Indemnified Party spent in relation thereto and any income or other taxes or assessments incurred in respect of the indemnification provided for in this By-law,

until it is conclusively determined that such Indemnified Party shall no longer be entitled to such indemnification, and except for such costs, charges, damages and expenses as are occasioned by his or her own wilful neglect or default.

(2) The Corporation shall also indemnify such persons in such other circumstances as the Act permits or requires. Nothing in this By-law shall limit the right of any person entitled to indemnity apart from the provisions of this By-law.

Section 9.3 Insurance

The Corporation may purchase and maintain insurance for the benefit of any Indemnified Party against such liabilities and in such amounts as the Board may from time to time determine and are permitted by the Act.

ARTICLE 10 DISTRICT COUNCILS

Section 10.1 Designation of District

The Board may from time to time designate any geographic area in Canada as a District of the Corporation, and may change or terminate any such designation at its discretion. The originating geographic areas of Canada have been designated as Districts of the Corporation as follows, until changed or terminated by the Board:

- (a) Newfoundland and Labrador District;
- (b) Prince Edward Island District;
- (c) Nova Scotia District;
- (d) New Brunswick District;
- (e) Québec District;
- (f) Ontario District;
- (g) Manitoba District, composed of the Province of Manitoba and the Territory of Nunavut;
- (h) Saskatchewan District;
- (i) Alberta District, composed of the Province of Alberta and the Northwest Territories; and
- (j) Pacific District, composed of the Province of British Columbia and the Yukon Territory.

Section 10.2 Composition of District Councils

- (1) There shall be a District Council in each District. Each District Council shall be composed of four to twenty members, as determined from time to time by the District Council, including a chair and vice-chair to be elected at the annual meeting of Dealer Members of the District.
- (2) In addition to the members of the District Council elected at the annual meeting of Dealer Members of the District, the Board may appoint one or more ex-officio members of a District Council.

Section 10.3 Duties and Powers

Each District Council shall have the duties and procedures and exercise the powers with respect to Dealer Members specified in this By-law and the Rules.

Section 10.4 Meetings of District Members

The Dealer Members of each District shall meet at least annually for the purpose of electing members of the District Council. A meeting of the Dealer Members of any District may be called by the District Council or by the Board and shall be held and conducted in accordance with the By-laws and Rules, and the procedures established by the Board from time to time. Notice of the time and place of any such meeting shall be given to the Dealer Members of the District. Two Members of the District entitled to vote, present personally or by a partner, director or officer shall be a quorum for any meeting of the Dealer Members of the District. Unless otherwise determined by the Board, voting at any meeting of the Dealer Members of a District may be carried out in the same manner as provided for voting at meetings of the Corporation. Instruments of proxy for such purpose shall be lodged with the Chair of the District Council not later than 10:00 a.m. of the day of the meeting or of any adjournment thereof.

Section 10.5 Initial District Councils

On a date determined by the Board, the initial District Council of each District shall be established and shall be comprised of the members of the District Council of such District for the Investment Dealers Association of Canada on the day immediately preceding the date determined by the Board and each member of the District Council shall hold office until the first annual meeting of the Dealer Members of the District, held in accordance with Section 10.4.

ARTICLE 11 COMMITTEES AND ADVISORY BODIES

Section 11.1 Committees of the Board

The Board may from time to time in its discretion appoint from their number one or more committees of the Board with such powers as the Board may determine including, without limitation, the authority to exercise any of the powers of the Board and to act in all matters for and in the name of the Board under the By-laws and Rules, except in each case where By-laws or Rules specifically require an action by, or approval of, the Board. The members of any committee established by the Board shall be appointed annually at the first meeting of Directors following the annual meeting of Members at which Directors have been elected. Unless otherwise provided in this By-law, any Director shall be entitled to be appointed to any committee and a majority of the members of a committee present in person or by telephone shall constitute a quorum, provided that if Independent Directors must be members of the committee, the quorum must also include a majority of the Independent Directors who are members of the committee.

Section 11.2 Corporate Governance Committee

The Board shall establish a Corporate Governance Committee composed of at least five Directors, and may include the Chair. Unless the Chair is a Non-Independent Director, all of the members shall be Independent Directors. The chair of the Corporate Governance Committee shall be an Independent Director elected by the members of the Corporate

Governance Committee. The Corporate Governance Committee shall perform such duties as the Board may delegate or direct from time to time.

Section 11.3 Finance and Audit Committee

The Board shall establish a Finance and Audit Committee composed of at least five Directors including the Chair and at least two of whom shall be Independent Directors. The chair of the Finance and Audit Committee shall be elected by the members of the Finance and Audit Committee. The Finance and Audit Committee shall review and report to the Board on the annual financial statements of the Corporation and shall perform such other duties as the Board may delegate or direct from time to time.

Section 11.4 Human Resources and Pension Committee

The Board shall establish a Human Resources and Pension Committee composed of at least five Directors including the Chair. The chair of the Human Resources and Pension Committee shall be elected by the members of the Human Resources and Pension Committee. The Human Resources and Pension Committee shall perform such duties as the Board may delegate or direct from time to time.

Section 11.5 Committee Meetings

The Board may prescribe requirements and procedures not inconsistent with the Act and the By-laws relating to the calling of meetings of, and conduct or business by, committees of the Board. Subject to the By-laws and Rules and any resolution of the Board, meetings of any such committee shall be held at any time and place to be determined by the chair of the committee or its members provided that at least 48 hours' prior written notice of such meetings shall be given, other than by mail, to each member of the committee. Notice by mail shall be sent at least 14 days prior to the meeting.

Section 11.6 Advisory Bodies

The Board may from time to time appoint such advisory bodies as it may deem advisable, and may delegate such power of appointment to any Director, officer, committee or employee of the Corporation. Membership on such advisory bodies shall be determined by the Board from time to time and if the Board so decides, members of such advisory bodies may be persons other than Directors, Members or directors, officers or employees of a Member.

Section 11.7 Procedure

Unless otherwise determined by the Board, this By-law or the Rules, each committee and advisory body shall have power to regulate its procedure.

ARTICLE 12 NOTICES

Section 12.1 Method of Giving Notices

Any notice (which term includes any communication or document) to be given (which term includes sent, delivered, or served) pursuant to the Act, the regulations thereunder, the Letters Patent, the By-laws or otherwise to a Member, Director, officer, auditor or member of a committee of the Board shall be sufficiently given if delivered personally to the person to whom it is to be given; or if delivered to the person's recorded address; or if mailed to the person at the person's recorded address by prepaid ordinary or air mail; or if sent to the person at the person's recorded address by any means of prepaid transmitted or recorded communication. A notice so delivered shall be deemed to have been given when it is delivered personally or to the recorded address as aforesaid; a notice so mailed shall be deemed to have been given when deposited in a post office or public letter box and deemed to have been received on the fifth day after mailing; and a notice so sent by any means of transmitted or recorded communication shall be deemed to have been given when dispatched or delivered to the appropriate communication company or agency or its representative for dispatch. The secretary may change or cause to be changed the recorded address of any Member, Director, officer, auditor or member of a committee of the Board in accordance with any information believed by the secretary to be reliable. The foregoing shall not be construed so as to limit the manner or effect of giving notice by any other means of communication otherwise permitted by law or as authorized by this By-law.

Section 12.2 Undelivered Notices

If any notice given to a Member pursuant to Section 12.1 is returned on three consecutive occasions because the Member cannot be found, the Corporation shall not be required to give any further notices to such Member until the Member informs the Corporation in writing of the Member's new address.

Section 12.3 Omissions and Errors

The accidental omission to give any notice to any Member, Director, officer, auditor or member of a committee of the Board or the non-receipt of any notice by any such person or any error in any notice not affecting the substance thereof shall not invalidate any action taken at any meeting held pursuant to such notice or otherwise founded thereon.

Section 12.4 Waiver of Notice

Any Member, proxyholder, representative, other person entitled to attend a Members' Meeting, Director, officer, auditor or member of a committee of the Board may at any time waive any notice, or waive or abridge the time for any notice, required to be given to such person under any provision of the Act, the regulations thereunder, the Letters Patent, the By-laws or otherwise and such waiver or abridgement, whether given before or after the meeting or other event of which notice is required to be given, shall cure any default in the giving or in the time of such notice, as the case may be. Any such waiver or abridgement shall be in writing except a waiver of notice of a meeting of the Board or of a committee of the Board which may be given in any manner.

ARTICLE 13 RULES AND OTHER INSTRUMENTS

Section 13.1 Power to Make, Amend or Repeal Rules

The Board may make and from time to time amend or repeal such Rules for the objects of the Corporation as a self-regulatory organization (including permissible uses for the Restricted Fund) and a regulation services provider. All such Rules for the time being in force, unless expressly otherwise provided, shall be binding upon all Regulated Persons. Rules made or amended may be designated with such style, name or title as approved by the Board. Rules shall be effective without Member approval or approval by any other person, except as expressly otherwise provided therein or pursuant to any applicable legislation. Rules may represent the imposition of requirements in addition to or higher than those imposed under the applicable securities legislation.

Section 13.2 Use of Restricted Fund

Permissible uses for the Restricted Fund will be subject to the terms of recognition orders issued, in accordance with applicable securities laws, by the securities commission (or any successor regulatory authorities thereto) in the jurisdictions in which New Regco is recognized as a self-regulatory organization.

Section 13.3 Other Instruments

If under any By-law or Rule, another instrument may be prescribed or adopted, any such instrument (including any instructions, directions, notices, bulletins, forms or notes) that is prescribed or adopted by the Corporation shall have the same force and effect as the By-law or Rule pursuant to which it is prescribed or adopted. Any reference in the By-laws or Rules to compliance with the By-laws or Rules shall be deemed to include a reference to any such other instrument that is prescribed or adopted.

Section 13.4 Notices, Guidelines, Etc.

The Corporation may develop and issue to Regulated Persons such guidelines, notices, bulletins, interpretations, procedures, practices and other communications relevant to the By-laws and Rules or the business and activities of a Regulated Person or any other person subject to the jurisdiction of the Corporation to supplement or assist in the interpretation, application of and compliance with the By-laws and Rules.

Section 13.5 Continuing Jurisdiction and Discipline and Enforcement under the Rules

- (1) Any Regulated Person, in accordance with the provision of any Rule, shall remain subject to the jurisdiction of the Corporation in respect of any action or matter that occurred while that person was subject to the By-laws and Rules for such period of time and under such additional conditions as may be provided in the Rules.
- (2) The Rules shall provide the practice and procedure to be followed by the Corporation in connection with the commencement and conduct of a disciplinary hearing and shall

establish the penalties or remedies that may be imposed by the Corporation on a Regulated Person for failure to comply with any Rules.

Section 13.6 Exchange of Information, Agreements

- (1) The Corporation may provide assistance, including the collection and sharing of information and other forms of assistance for the purpose of market surveillance, investigations, enforcement litigation, investor protection and compensation and for any other regulatory purpose to any exchange, self-regulatory organization, securities regulator, financial intelligence or law enforcement agency or authority, or investor protection or compensation fund, whether domestic or foreign.
- (2) The Corporation may enter into an agreement with any entity described in subsection (1) to collect and exchange information and to provide for any other forms of mutual assistance for the purpose of market surveillance, investigation, enforcement litigation, investor protection and compensation and for any other regulatory purpose.

**ARTICLE 14
NO ACTIONS**

Section 14.1 No Actions Against the Corporation

No Regulated Person (including in all cases a Member whose rights and privileges have been suspended or terminated and a Member who has been expelled from the Corporation or whose membership has been forfeited) shall be entitled, subject to the rights of appeal granted under the By-laws or Rules, and further subject to any specific contractual rights that a Regulated Person may have in respect of a contract or other agreement to which the Corporation is a party, to commence or carry on any action or other proceedings against the Corporation or against the Board, or any Protected Party, or against the CIPF, its Board of Directors, any of its committees or its officers, employees and agents, 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 the Letters Patent, By-laws or Rules and, in the case of the CIPF, done or omitted under the provisions of and in compliance with or intended compliance with the provisions of its letters patent, by-laws and policies, and in any case under any legislation or regulatory directives or agreements thereunder.

Section 14.2 No Liabilities Arising in Respect of Entities in which Corporation Holds an Interest

The Corporation shall not be liable to a Regulated Person (including in all cases a Member whose rights and privileges have been suspended or terminated and a member who has been expelled from the Corporation or whose membership has been forfeited) for any loss, damage, costs, expense, or other liability arising from any act or omission of any corporation or other entity in which the Corporation holds an equity or participating interest, including without limitation CDS and FundSERV inc.

ARTICLE 15
USE OF NAME OR LOGO: LIABILITIES: CLAIMS

Section 15.1 Use of Name

No Member shall use the name or logo of the Corporation on letterheads or in any circulars or other advertising or publicity matter, except to the extent and in such form as may be authorized by the Board. The Board may at its sole discretion require a Member to cease using the name or logo of the Corporation. Any use by a Member of the name or logo of the Corporation shall not have the effect of granting to the Member any proprietary interest in the Corporation's name or logo.

Section 15.2 Liabilities

No liability shall be incurred in the name of the Corporation by any Member, officer or committee without the authority of the Board.

Section 15.3 Claims

Whenever the membership of a Member ceases for any reason whatsoever, neither the former Member nor its heirs, executors, administrators, successors, assigns or other legal representatives, shall have any interest in or claim on or against the funds and property of the Corporation.

ARTICLE 16
TRANSITION PERIODS FOR BY-LAWS AND RULES

Section 16.1 Transition Periods for By-laws and Rules

The Board may suspend or modify the application of any By-law or Rule, or provision thereof, for such period of time as it may determine in its sole discretion in order to facilitate the orderly application of and compliance with such By-law or Rule to or by all or any number or class of Regulated Persons. Any suspension or modification may be made either before or after the relevant By-law or Rule has become effective, and notice of the suspension or modification shall be given promptly to all Regulated Persons and to the securities regulatory authority in any jurisdiction where such By-law or Rule would otherwise be in effect. No suspension or modification shall unfairly discriminate between Members or other persons subject to the jurisdiction of the Corporation and no such modification shall impose on all or any of the Members or other persons subject to the jurisdiction of the Corporation a requirement that is more onerous or strict than the requirements of the By-law or Rule that is subject to the modification.

**ARTICLE 17
AMENDMENT, REPEAL, ENACTMENT OF BY-LAWS**

Section 17.1 By-laws

The By-laws of the Corporation not embodied in the Letters Patent may be repealed or amended by By-law or a new By-law relating to the requirements of subsection 155(2) of the Act, may be enacted only by a majority of the Directors at a meeting of the Board and sanctioned by an affirmative vote of the Members as set out in this By-law at a meeting duly called for the purpose of considering such By-law, provided that the repeal or amendment of such By-law shall not be enforced or acted upon until the approval of the Minister of Industry has been obtained.

**ARTICLE 18
AUDITORS**

Section 18.1 Auditors

The Members shall, at each annual meeting, appoint an auditor to audit the accounts of the Corporation for report to the Members at the next annual meeting. The auditors shall hold office until the next annual meeting provided that the Directors may fill any casual vacancy in the office of auditor. The Corporation's auditor may not be a Director, officer or employee of the Corporation or of an affiliated Corporation or associated with that Director, officer or employee. The remuneration of the auditor shall be fixed by the Board.

**ARTICLE 19
BOOKS AND RECORDS**

Section 19.1 Books and Records

The Board shall see that all necessary books and records of the Corporation required by the By-laws of the Corporation or by any applicable statute or law are regularly and properly kept.

ENACTED this _____ day of _____, _____.

WITNESS the seal of the Corporation.

President

Secretary

SCHEDULE 4
Initial Directors of New Regco

Director	Membership	Biography
Kerry D. Adams Toronto, Ontario	Independent (New)	Ms. Adams served as Commissioner and Director of the Ontario Securities Commission from 1996 to 2003 and as Chair of the Investor Education Fund from 2000 to 2006. Since 1991 Ms. Adams has been the President of K. Adams & Associates Limited. Prior to that, she was the President of Widcor Limited and Widcor Financial. She is a former Partner with Peat Marwick (now KPMG). Ms. Adams served for six years as a founding member of the CICA Accounting Standards Oversight Council. Currently she is a director on the Boards of Indigo Books & Music and Primaris Retail Real Estate Investment Trust and a member of the Bank of Nova Scotia Master Trust and Pension Investment Committees. Ms. Adams is active in community service, having served on the Boards of Directors for Pickering College, Queen Elizabeth Hospital, and Women's College Hospital, and as a member of U of T's President's Investment Advisory Committee.
Roger G. Casgrain Montreal, Quebec	Dealer (IDA)	Mr. Casgrain is Executive Vice-President and member of the Board of Directors of Casgrain & Company Limited, investment dealer. He has been involved with the firm since 1983. Prior to this, Mr. Casgrain worked with CIBC Wood Gundy for three years. He holds a Bachelor of Commerce with honors from Queen's University, an MBA from l'Université de Lausanne (Switzerland) and the CFA designation. Mr. Casgrain is a member of the Board of Directors of the IDA and of CanPx. He is also a member of the Human Resources & Pension Committee of the IDA, a member of the Debt Markets Committee of the Investment Industry Association of Canada (IIAC) and a member of the Investment Committees of Queen's University Endowment Fund and the Villa Maria Foundation.
David F. Denison Toronto, Ontario	Independent (New)	Mr. Denison is the President and CEO of the CPP Investment Board and is responsible for leading the organization and its investment activities. He has 24 years of experience in the financial services sector, including senior postings in investment, consulting and mutual fund businesses in Canada, the United States and Europe. His previous firms have included Merrill Lynch, S.G. Warburg Canada, Midland Walwyn and Mercer Consulting. Mr. Denison joined Fidelity Investments Canada in 1995 as the company's Chief Operations Officer and was later named President. From 2000 to 2003, Mr. Denison served as President of Fidelity Investments Institutional Brokerage Group in Boston before resuming his duties as President of the Canadian company, a position he held until his appointment to the CPP Investment Board. Mr. Denison is a current director of York University, The Toronto Rehabilitation Institute, The York School, The Canadian Coalition for Good Governance and also serves on the Campaign

Director	Membership	Biography
		Cabinet for The United Way of Greater Toronto.
Michael A. Grandin Calgary, Alberta	Independent (IDA)	Mr. Grandin is currently the Chairman and Chief Executive Officer of Fording Canadian Coal Trust. From October 2001 to April 2002, Mr. Grandin was President of PanCanadian Energy Corporation, and from February 2004 to January 2006 he also served as Dean of the Haskayne School of Business at the University of Calgary. From 1998 to 2001 he was the Executive Vice-President and Chief Financial Officer of Canadian Pacific Limited. Prior to that he served as Vice-Chairman and director of Midland Walwyn Capital Inc. Mr. Grandin serves as director of EnCana Corporation and BNS Split Corp.
Daniel Leclair Shefford, Quebec	Independent (IDA)	Mr. Leclair has more than 30 years of experience in financial management. After 13 years with Hydro Québec, he retired at the end of 2005. Hired as Vice-President – Financing and Treasurer, he was promoted to the position of Executive Vice-President and Chief Financial Officer in 1998. Mr. Leclair's previous experience in management includes Vice-President and Treasurer at Montreal Trust, part of the management team that founded the Caisse centrale Desjardins, and other management positions with Canadian and foreign banks related to domestic and international markets. Mr. Leclair sits on various Boards and pension fund investment committees. He is also Chairman of the Institut de Finance mathématique de Montréal (IFM2) and of the Foundation of Pierre Boucher Hospital.
Robert W. LeSourd Calgary, Alberta	Dealer (New)	Mr. LeSourd is a founding partner of J.F. Mackie & Company Ltd., an independent equity investment firm providing, among other things, financial advisory services to early stage companies. He brings over 17 years of experience with one of Canada's largest banks to his role of overseeing the firm's business functions and operational activities. Prior to forming J.F. Mackie. Mr. LeSourd served as Vice-President and Director of Royal Bank Action Direct Inc., the discount brokerage arm of the Royal Bank of Canada. Prior to his Head Office appointment, Mr. LeSourd was Regional Vice-President, Prairies & NWT for Royal Bank Action Direct Inc. Additional positions held within the Royal Bank include Manager Service & Operations and Manager Planning & Market Development for South Calgary and various Branch Manager positions for the Bank in Calgary.
Ronald S. Lloyd Toronto, Ontario	Dealer (IDA Chair)	Mr. Lloyd is Chairman and Chief Executive Officer for Credit Suisse Canada and also has responsibility for heading up Credit Suisse's Canadian Investment Banking team. Mr. Lloyd has over 20 years of experience in the Canadian financial services industry. He joined Credit Suisse First Boston in July 2005 from Merrill Lynch where he was Managing Director and President and Chief

Director	Membership	Biography
		Executive Officer, Merrill Lynch Canada.
William Moriarty Toronto, Ontario	Dealer (RS Chair)	Mr. Moriarty is a Vice-Chairman of RBC Capital Markets and currently serves as Head of the Global Research Division. Prior to this role he served as Head of the Global Equity Division, Head of the Alternative Investments Division and Co-Head of the Capital Market Services Division. He has served in various capacities for such organizations as the Toronto Society of Financial Analysts, The Toronto Stock Exchange, the Montreal Exchange, the IDA and currently serves as the Chair of Market Regulation Services Inc.
Daniel F. Muzyka Vancouver, British Columbia	Independent (IDA)	Professor Muzyka is the Dean and a Professor at the Sauder School of Business, The University of British Columbia. Prior to assuming this position in 1999, Professor Muzyka taught and held senior administrative positions at a number of universities and institutions including Harvard, INSEAD, Babson College, Northeastern, Wharton School and Williams College. In addition, he has acted as a board member and consultant to several other business and not-for-profit organizations such as the Vancouver Board of Trade (Past Chair), GMAC, New Ventures B.C., Premier's Technology Council and the European Venture Capital Association. Professor Muzyka is currently a public director of the IDA.
Richard Nesbitt Toronto, Ontario	Marketplace (RS)	Mr. Nesbitt is the Chief Executive Officer of TSX Group Inc. Prior to joining TSX in 2001, Mr. Nesbitt served as President and Chief Operating Officer of BayStreetDirect Inc., an Internet-based investment dealer. Mr. Nesbitt served as President and Chief Executive Officer of HSBC Securities Canada for three years, after having worked for ten years at CIBC Wood Gundy. He has also worked with Mobil Oil Canada Ltd. and spent two years as a Lecturer at The University of Western Ontario School of Business. Mr. Nesbitt sits on a variety of business and not-for-profit boards including the Board of Directors of TSX Group Inc., Market Regulation Services Inc., the World Federation of Exchanges, CanDeal.ca Inc., Frontier College and the Prostate Cancer Research Foundation of Canada.
Brian J. Porter Toronto, Ontario	Dealer (IDA)	Mr. Porter is the Executive Vice-President and Chief Risk Officer of Scotiabank. Prior to this appointment, he held a variety of management positions, including Deputy Chairman, Scotia Capital Inc. Mr. Porter is Director and past-Chairman of the IDA, a Director of the Atlantic Salmon Federation and a member of the Faculty of Management Board of Advisors, Dalhousie University.
Gerry Rocchi Toronto, Ontario	Independent (RS)	Gerry Rocchi is a financial consultant residing in Toronto. Mr. Rocchi has served as Chief Executive Officer of Barclays Global Investors Canada from 1997 to late 2004. Prior to that he spent 16 years with Imperial Oil Limited and ExxonMobil Corporation in a

Director	Membership	Biography
		variety of financial management roles. Mr. Rocchi has significant experience participating in regulatory advisory bodies. He has served as a director of the Investment Counsel Association of Canada, and as a member of a number of advisory groups, including the S&P/TSX Index Advisory Panel, the Ontario Securities Commission Investment Funds Council, the Rules Advisory Committee of Market Regulation Services Inc. ("RS") and the Regulatory Committee of the Investment Funds Institute of Canada. Mr. Rocchi has served as a director of RS from 2004 and is Chair of the Finance and Audit Committee of RS.
Wendy Rudd Toronto, Ontario	Marketplace (New)	Ms. Rudd is the Chief Executive Officer of TriAct Canada Marketplace LP, an alternative trading system for Toronto Stock Exchange listed securities. Prior to joining TriAct she was Vice-President, Business Development with ITG Canada Corp. from 2001 to 2005. Ms. Rudd also held senior positions at CIBC World Markets Inc. and the Toronto Stock Exchange, where she spent 15 years and led a wide variety of divisions covering market data sales, member relationships, product management, research and equity market development.
D. Grant Vingoe New York, New York	Independent (RS)	Mr. Vingoe is a partner in the New York office of the international law firm, Arnold & Porter LLP. Mr. Vingoe provides U.S. legal advice in connection with cross-border securities transactions, financial services regulation, derivative instruments, and the regulatory aspects of investment management.
Susan Wolburgh Jenah Toronto, Ontario	President and CEO (New)	Ms. Wolburgh Jenah is the President and Chief Executive Officer designate of New Regco. She is currently the President and Chief Executive Officer of the Investment Dealers Association of Canada (IDA). Prior to joining the IDA, Ms. Wolburgh Jenah was the Vice-Chair at the Ontario Securities Commission (Commission) from 2004 to 2007. Ms. Wolburgh Jenah was the Acting Chair of the Commission from July to November 2005. Prior to her appointment as Vice-Chair, Ms. Wolburgh Jenah was General Counsel and Director of International Affairs. She joined the Commission in 1983 and held a variety of senior legal and management positions. She currently serves on the following not-for-profit boards and advisory committees: the Institute of Corporate Directors, the Audit and Finance Committee of the National Cancer Institute of Canada, the National Steering Committee on Financial Capability and the Dean's Advisory Council for Osgoode Hall Law School.

SCHEDULE 5
Summary of Member Survey



SUMMARY OF RESULTS

**MEMBER SURVEY ON BENEFITS OF PROPOSED
MERGER OF IDA AND RS**

John Carson
Compliax Consulting Inc.

December 2006

Executive Summary

This report summarizes the results of a survey of 28 securities firms that are members of the Investment Dealers Association of Canada (IDA) and participants in Market Regulation Services Inc. (RS) on the benefits of the proposed merger between the IDA and RS.

The IDA / RS Merger Steering Committee commissioned John Carson of Compliax Consulting Inc. to conduct an independent, confidential survey of a sample of firms in September 2006. The sample was based on the 9 industry peer groups used by the IDA in risk ranking members, as at June 2006,¹ and included firms that represent the majority of total industry revenues and assets under administration. In most cases both the CFO and CCO of each member participated in a telephone interview.

Survey respondents unanimously believe that the proposed merger will yield benefits. The survey shows a strong consensus that the primary benefits of the merger will be increased operational efficiency, greater consistency and less duplication from a single SRO. Firms expressed similar views in ranking the top 5 expected benefits. A uniform approach to regulation, a single point of contact for rules and problems and elimination of duplication were ranked highly by most firms.

Cost savings at member firms or in SRO operations are not seen as a significant benefit of the merger. The survey shows a strong consensus that cost savings for members stemming from the merger will not be material. The reason is that the IDA and RS operate two different regulation programs that will be ongoing.

The only significant disadvantages of the merger cited were transitional and implementation issues. A number of firms expressed concern about staff turnover at the SROs. The respondents did not suggest significant changes for the new SRO's approach to regulation programs.

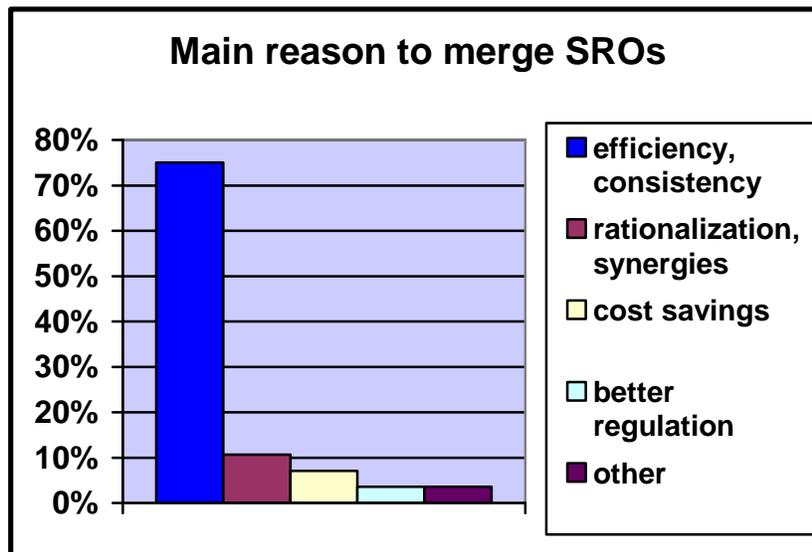
Results and Analysis

1. Primary Benefit of Merger

Q. What is the most important reason to merge the IDA and RS into a new SRO, in your opinion?

The survey shows a very high degree of support for the merger because members expect it to lead to simpler and more efficient regulation. A large majority of firms stated that *greater consistency, less duplication and greater efficiency* are the main reasons for merging the two SROs. Rationalization of the system and achieving synergies were cited by 3 firms.

Chart Q1



Firms said that rules, examinations and the overall approach to regulation would be more consistent and clear. People support “one stop shopping” because they expect it to be simpler and more efficient for members, for the regulators and for investors.

Members do not equate greater efficiency with lower costs, but rather with streamlined, simpler and more effective processes. Only two firms said that cost savings are the main reason for the proposed merger, and both cited cost savings in the SRO’s organization. One noted that a stronger risk-based approach should enable resources for examinations to be better focused and reduced.

Although many firms mentioned less duplication, they do not see significant duplication between the IDA and RS today. But any duplication or overlap is considered less efficient and effective than a single organization. Consistency is a more significant issue because a large majority of firms said that the IDA’s and RS’ approach to regulation and their organizational cultures are different, which requires the firms to adapt to different approaches depending on the issue.

2. Top 5 Benefits of Merger

Q. The main benefits of the merger that the IDA and RS have identified are listed here. These include benefits to members, investors and other participants in the capital markets. Please rank the 5 benefits that you believe are the most significant in order of importance.

(Mark the most significant benefit “1”, the next most significant benefit “2” and so on for the top 5.)

	<i>More effective regulation of investment dealers and markets</i>
	<i>Elimination of duplication or jurisdictional conflicts in regulation</i>
	<i>Elimination of gaps in regulation</i>
	<i>SRO will have a complete picture of member firms’ operations, finances, trading activities and risks</i>
	<i>Uniform approach to regulation and enforcement</i>
	<i>Cost savings in member firms’ compliance programs and operations</i>
	<i>Cost savings in SRO operations</i>
	<i>Single set of rules</i>
	<i>Single point of contact for problems, reports or potential violations</i>
	<i>Single point of contact for all SRO rules and regulation programs</i>
	<i>CSA may delegate more responsibilities to SRO</i>
	<i>Other [please describe the benefit]</i>

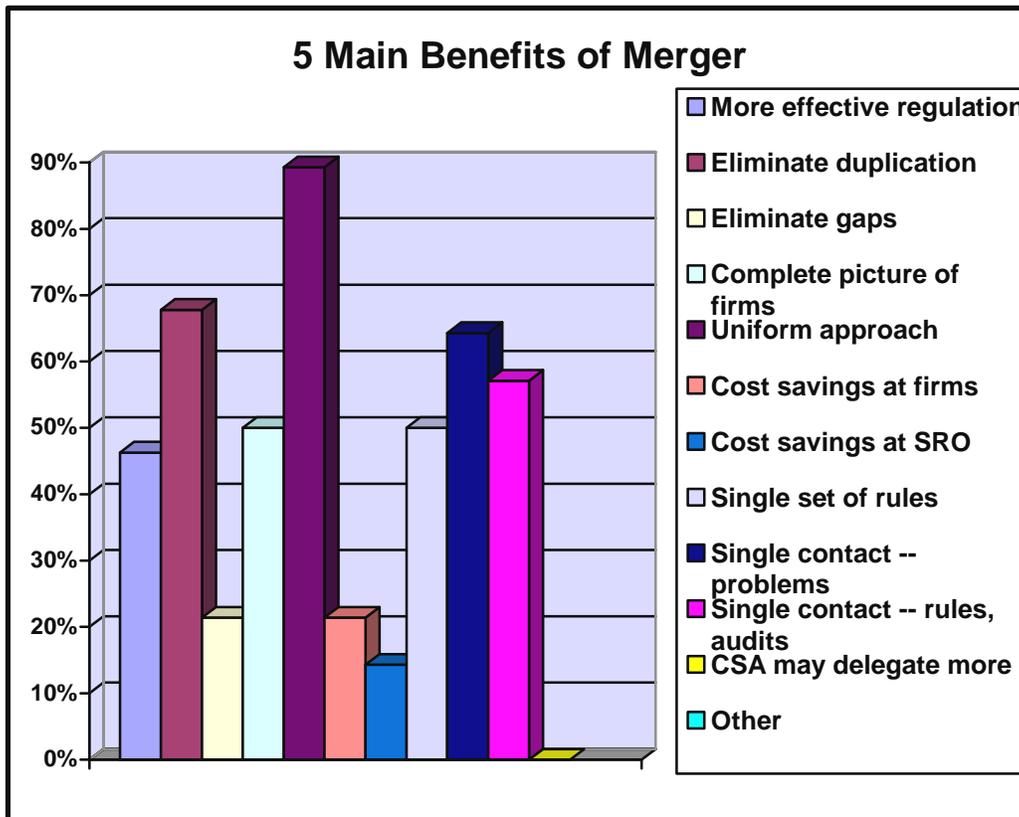
Seven benefits were consistently mentioned in the top 5 lists of CFOs and CCOs. In order of scoring they were:

- 1) uniform approach to regulation
- 2) elimination of duplication or conflicts
- 3) single point of contact for issues and problems
- 4) single point of contact for rules
- 5) single set of rules
- 6) SRO will have complete picture of member firms’ businesses
- 7) more effective regulation of dealers and markets.

More effective regulation might have been ranked higher but some respondents said it would be the result of realizing the other benefits listed.

Chart Q2

Percentages indicate the number of times each benefit was selected. The results are not weighted by each firm's ranking of benefits.



The results show that gaps in regulation are not considered to be a significant issue. Differences in the SROs' approach to regulation are a concern -- "uniform approach to regulation and enforcement" scored the highest ranking. Differences were noted in 4 areas in particular: enforcement policy, guidance and education, risk-based regulation and consultation with members.

Many respondents suggested adoption of specific "best practices" from the two SROs' current approaches. Generally members feel that the IDA's risk assessment methodology is sound and support extending it to market regulation. They also like the IDA's consultation process and extensive use of member input through committees. Firms see RS' strengths as providing guidance and education on rules, as well as providing clear answers to questions on rule interpretations.

3. Potential Disadvantages

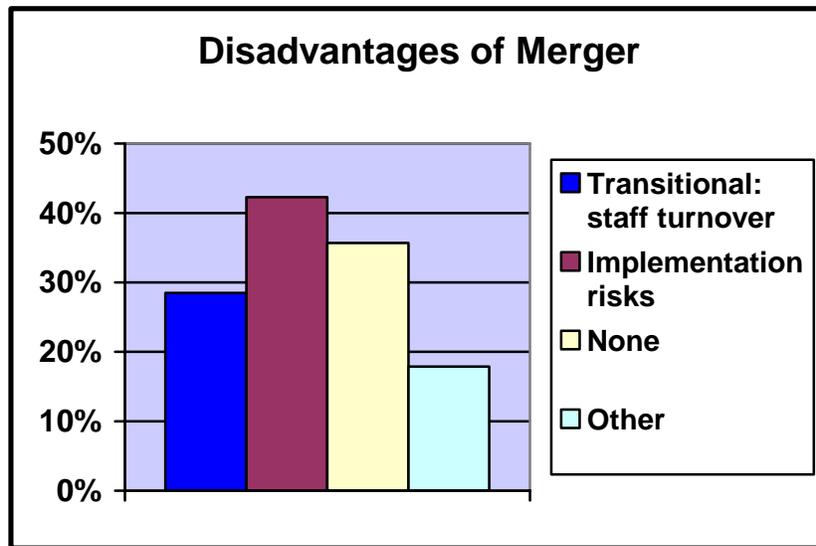
Q. Do you see any potential disadvantages to the proposed merger?

Significantly, no firms pointed to any long term disadvantages to the merger, which is reflected in the virtually unanimous support for the proposal. Members said that the only potential disadvantages are transitional in nature. Over 40% identified implementation risks, including ineffective implementation of the merger, or the new SRO implementing approaches to regulation that they did not support. Over 1/3 of firms did not see any disadvantages to the merger.

Almost 30% cited the transitional issue of increasing SRO staff turnover as a concern. Turnover increases regulatory risk because it diminishes expertise at the SROs, and makes it more difficult for firms to deal with the regulators. The new SRO should make attracting and retaining talent a priority, several firms noted.

Chart Q3

Note: some firms cited more than one disadvantage.



A few firms noted there could be a lack of checks and balances in a system with one large SRO.

4. Recommended Changes

Q. What changes would you recommend be made in the new SRO's operations or programs that would increase the benefits of the merger or cost savings to members?

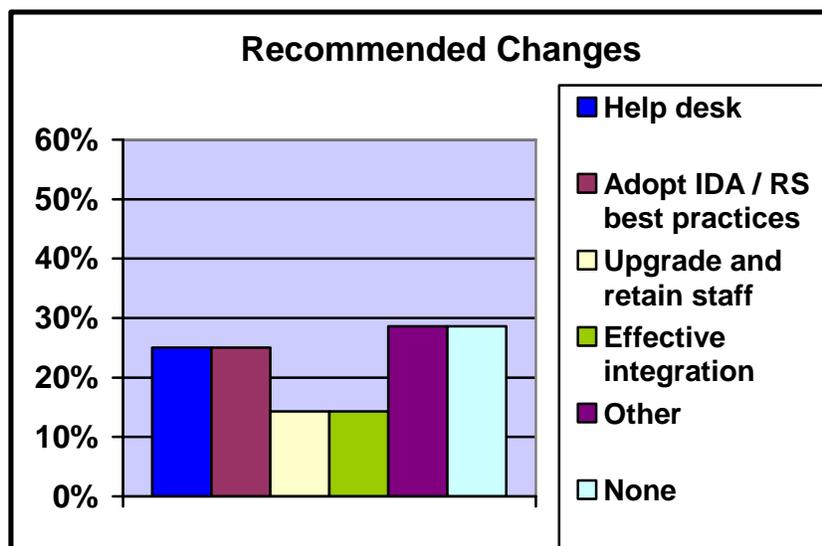
The responses to this question varied quite a bit because it is an open-ended question. Over 25% of members did not make any suggestions. Only a few suggestions were made

by more than 3 firms. 25% said that the new SRO should adopt IDA or RS best practices. The practice mentioned most frequently was the IDA’s risk-based approach or risk trend report.

Providing a “Help Desk” along the lines of the NASD’s service is also supported by 25% of firms, but 3 firms said a Help Desk is not needed. About 15% of respondents commented on the need for effective integration of the two SROs and on the need to upgrade and retain quality staff.

Chart Q4

Some firms made more than one suggestion so the chart is not based on one answer per firm.

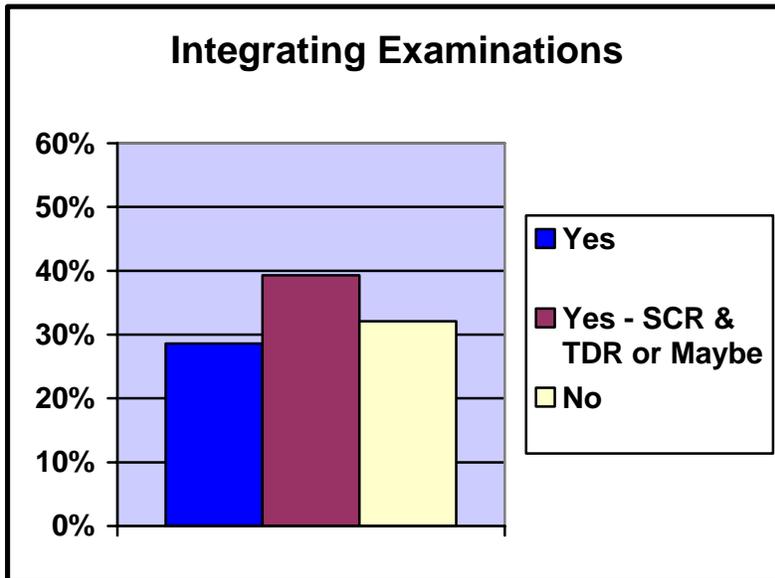


5. Integration of Examinations

Q. Would your firm realize cost savings if the new SRO carries out sales compliance reviews, financial examinations and trading desk reviews at the same time for a particular member firm?

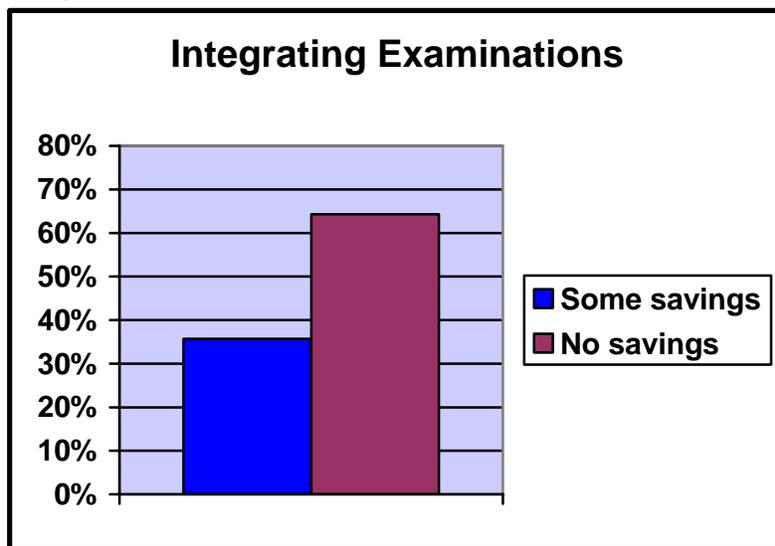
Members were split on the question of carrying out the financial examination, sales compliance review (SCR) and trading desk review (TDR) simultaneously and on an integrated basis. The majority did not favour integrating the financial examination because it is considered to be almost an entirely separate exercise. About 2/3 of the firms favour carrying out the SCR and TDR on an integrated basis because they see more overlap between the two, especially in the types of information required by the SROs for purposes of the reviews. A few firms answered “maybe”; they said that integrated reviews would only be beneficial if the reviews are coordinated effectively.

Chart Q5a – integrating



Most firms do not expect to realize any material cost savings or efficiencies if the exams are integrated and carried out simultaneously. They said that the 3 areas draw on different internal resources and the work required by the reviews would remain basically the same. About 1/3 of firms think that some cost savings would be realized, but feel they would be nominal. Any savings would consist entirely of savings in staff time that could be used on other tasks (or would reduce extra hours worked during exam periods).

Chart Q5b – savings



Members do not see material cost savings from integrating the examinations because the content of the exam modules would not change much. Some time savings might be gained in preparing information and materials for exams, especially if the provision of

information is consolidated. But the number of examiners and the total length of the examinations will probably be about the same, so managing the process will likely take a similar amount of time. Some time would likely be saved if an integrated examinations process is coordinated by one person at the SRO, so that the firm's primary relationship is with one manager at the SRO.

6. Cost Savings from Merger

Q. Please estimate the annual cost savings in your firm's compliance-related costs and overall operations for each of the following activities or processes.

We are asking firms to estimate any cost savings within the following ranges:

- (1) Minimal or nominal savings \$ 0 - \$ 20,000*
- (2) Moderate savings \$ 20,000 - \$100,000*
- (3) Significant savings \$ 100,000 plus [specify]*
- (4) Some savings but cannot estimate the amount*

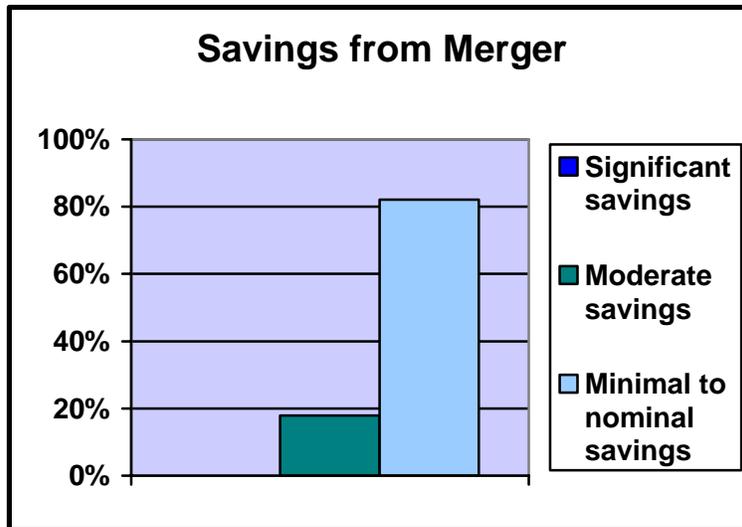
Activities or Processes:

1.	<i>Single SRO relationship to maintain and manage</i>
2.	<i>Responding to a single SRO's enquiries or investigations</i>
3.	<i>Managing and responding to compliance reviews, financial examinations and trading desk reviews (based on an integrated approach to on-site inspections)</i>
4.	<i>Data collection and reporting to the SRO</i>
5.	<i>Reporting of client complaints to the SRO</i>
6.	<i>Dealing with a single SRO on problems or potential violations (including eliminating the need to address any issues on jurisdiction or joint responsibility of IDA and RS)</i>
7.	<i>Creation of a consolidated Rulebook</i>
8.	<i>Single point of contact on rules and interpretations</i>
9.	<i>Single source of notices to members</i>
10.	<i>Single SRO source of education and training</i>
11.	<i>Tracking and commenting on rule proposals</i>
12.	<i>Communication of new rules and policies</i>
13.	<i>Maintaining systems, databases and infrastructure</i>
14.	<i>Training and education of staff on compliance issues</i>
15.	<i>Updating manuals and documentation</i>
16.	<i>Costs of dealing with enforcement actions (under a single set of enforcement procedures).</i>

The overwhelming majority of members do not think that the merger will yield material cost savings in their operations. Therefore very few respondents provided a detailed breakdown based on the activities or processes listed in the question, so only the responses to the general question are shown.

A large majority of members said that aggregate savings would be minimal to nominal (less than \$20,000). All respondents agree that compliance budgets would not be reduced; any potential savings would be in the form of less staff time spent on activities such as dealing with examinations. Only 18% of firms feel that moderate cost savings will be realized overall. None predict significant savings. Some people said that greater savings might occur over time if the new SRO' streamlines programs or processes significantly.

Chart Q6



The cautious estimates reflect the fact that the IDA and RS operate distinct regulatory programs under two different sets of rules. Several people commented that it is difficult to predict time savings for specific activities or processes because the form of the new SRO and its approach to regulation programs is not known yet.

The respondents unanimously believe that the merger will yield benefits, but that cost savings are not the reason to proceed with it. A few hope that cost savings can be achieved in the new SRO's operations, but acknowledged that any savings are unlikely to be material at an individual member level. Several people commented that they hope to be able to do more compliance work in future without adding staff, and that savings could be realized in this way.

Endnotes

¹ The 9 IDA peer groups are:

1. integrated firms
2. retail firms
3. introducer firms
4. managed firms
5. discount brokers
6. institutional firms
7. corporate finance firms
8. alternative trading systems
9. Proprietary trading firms

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