

December 21, 2007

**VIA EMAIL AND COURIER**

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Saskatchewan Financial Services  
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Attn: Barbara Shourounis

Dear Sirs/Mesdames:

**Re: Application for Recognition of New Regco (“New Regco”)**

**Introduction**

This letter sets out the joint application of the Investment Dealers Association of Canada (“**IDA**”) and Market Regulation Services Inc. (“**RS**”) on behalf of New Regco to the Alberta, British Columbia, Manitoba, Newfoundland and Labrador, New Brunswick, Nova Scotia, and Ontario Securities Commissions, the Saskatchewan Financial Services Commission and the Autorité des marchés financiers, which are collectively the members of the Canadian Securities Administrators (“**CSA**”) with jurisdiction, to recognize New Regco as a self-regulatory organization (“**SRO**”). This application responds to the criteria established by the CSA for such recognition, as well as our ongoing discussions with the CSA about the proposed combination of RS and the IDA. New Regco also intends to become a regulation service provider (“**RSP**”) pursuant to criteria published in National Instrument 23-101.

A draft consolidated Recognition Order is attached as Appendix A.

**Background**

Subject to relevant CSA recognition, IDA Board and RS Board (and shareholder) approval, it is proposed to consolidate the regulatory activities of the IDA and RS in New Regco, a new SRO which will acquire/assume the assets, liabilities and responsibilities of the IDA and RS. The objective of combining the IDA and RS is to improve the quality and effectiveness of self-regulation, thereby enhancing investor protection, fair and efficient markets and reducing systemic risks.

Full details of the proposed combination and the reasons it is being proposed are contained in the IDA Information Circular dated November 15, 2007. A copy of the Information Circular is posted on the IDA’s website ([www.ida.ca](http://www.ida.ca)). The IDA’s members overwhelmingly approved the proposed combination at a special meeting on December 17, 2007

**Corporate Governance**

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 – each of the IDA and TSX Inc. (“**TSX**”) will effectively give up their ownership rights in RS. The Letters Patent of New Regco (attached to the IDA Information Circular) specify that its objects are to regulate as a self-regulatory organization in respect of persons who are or were formerly (i) Dealer Members of New Regco, (ii) members, users or subscribers of or to marketplaces for which New Regco is a RSP, (iii) the respective representatives of any of the foregoing and (iv) other persons subject to the jurisdiction of New Regco in order to protect investors, foster investor confidence and enhance the fairness, integrity and efficiency of Canadian capital markets. The initial By-law of New Regco is attached to the IDA Information Circular.

New Regco will have two classes of members, each class having equal voting rights and voting together. Dealer Members will be investment dealers registered under applicable

Canadian securities legislation that are accepted for membership by the Board. All IDA members will become Dealer Members. Marketplace Members will be each marketplace that is a recognized exchange, quotation and trade reporting system (“QTRS”) or registered alternative trading system (“ATS”) for the purposes of National Instrument 21-101 which executes agreements for New Regco to be their RSP (a “Regulated Market”). 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. (Dealer Members and Marketplace Members are collectively referred to as the “Members”.)

#### *New Regco Board of Directors*

New Regco’s By-law establishes a Board of Directors of 15 directors, comprising the President and CEO of New Regco, 5 individuals representing Dealer Members (each a “**Dealer Director**”), 2 individuals representing Marketplace Members (each a “**Marketplace Director**”) and 7 Independent Directors. The definition in the By-law 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 a Marketplace Member.

The Corporate Governance Committee (the composition of which is described below) will, in accordance with the By-law and considering the overall composition of the Board and its representation of the Canadian markets, recommend as nominees to serve as Directors those individuals that it considers qualified and desirable, 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.

The Corporate Governance Committee will consider all relevant factors in nominating directors to ensure that the composition of the Board: (a) complies with the requirements of New Regco’s By-laws, (b) reflects the regional and other diversity of New Regco’s stakeholders, (c) otherwise reflects, in the judgement of the Corporate Governance Committee, the appropriate balance of interests and perspectives of New Regco Members and stakeholders, and (d) addresses, in the judgement of the Corporate Governance Committee, potential conflicts of interest arising from any relationship between a New Regco Member and the New Regco directors. Without limiting the generality of the foregoing, the Corporate Governance Committee will consider, for each potential director:

- the business interests of entities with which the candidate is associated;
- ownership interests in New Regco Members held by entities with which the candidate is associated;
- the extent of overlap and/or integration of the boards and/or management between New Regco Members and entities with which the candidate is associated (for example, consideration of the extent to which there are common managers and/or directors as between the candidate’s firm and an ATS); and

- contractual relationships between New Regco Members and entities with which the candidate is associated.

In addition, and in respect of Board nominees and persons appointed to advisory committees and the New Regco Hearing Committee, the Corporate Governance Committee will focus on qualities such as integrity, business judgement and acumen, capital markets expertise and, other relevant business, professional or board expertise, as well as ensuring that nominees are appropriate in recognition of the status of New Regco as a self-regulatory organization in the various Canadian jurisdictions.

The only exception to this selection process is that one of the two Marketplace Directors on the Board will be recommended for nomination by TSX. TSX will remain entitled to recommend for nomination a Marketplace Director so 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 New Regco's By-law). During the term of its Regulation Services Agreement ("TSX RSA") and provided it meets the foregoing market share threshold, TSX will also be entitled to representation on the Finance and Audit Committee (described below).

As provided in the By-law, the Corporate Governance Committee will ensure through its nomination process that the Board includes at all times at least (a) one Director, who need not be a Marketplace Director, with particular experience and expertise in respect of public venture equity markets; and (b) one Director, who also need not be a Marketplace Director, who is a partner, director, officer, employee of a non-TSX associated or affiliated Marketplace or an associate or an affiliated entity thereof.

Directors will serve for staggered two year terms (with the terms of the initial Directors to be staggered in two and three year terms). With the exception of the President and CEO, Directors are restricted from serving more than four consecutive terms.

Subject to a transition period, if a non-Independent Director is added to (or removed from) the Board, an Independent Director will also be added (or removed) so that there are always an equal number of non-Independent and Independent Directors on the New Regco Board. The Corporate Governance Committee will recommend and the Board may appoint directors to fill vacancies that arise between annual Members' meetings.

The initial New Regco directors, proposed by the joint Steering Group of the IDA and RS Boards, are described in the IDA Information Circular, as is the manner in which the Chair will be selected.

The Corporate Governance Committee will periodically review the efficacy of New Regco's governance practices.

#### Board Committees

The Board of New Regco will initially appoint from its number three standing committees: the Corporate Governance Committee, the Finance and Audit Committee and the Human Resources and Pension Committee.

The mandate of the Corporate Governance Committee will be to identify and recommend to the Board qualified nominees for election to the Board of Directors, as described above, and to appoint qualified individuals to the Hearing Committee (from which disciplinary panels are appointed). The Corporate Governance Committee will be composed of not less than 5 directors, and may include the Chair of the New Regco Board. All of the members of the Corporate Governance Committee will be Independent Directors unless the Chair of the New Regco Board is a member and is not an Independent Director.

The mandate of the Finance and Audit Committee (to be composed of not less than 5 Directors, including the Chair of the Board and a minimum of 2 Independent Directors) will be to oversee the accounting and financial reporting processes of New Regco, including audits of its financial statements, and to ensure that overall resources are adequate to achieve the organization's various regulatory objectives. As stated above, during the term of the TSX RSA and provided that it meets the 40% market share threshold, TSX will be entitled to representation on the Finance and Audit Committee.

The mandate of the Human Resources and Pension Committee (to be composed of not less than 5 Directors, including the Chair of the Board) will be to ensure that New Regco employs or retains the right people to achieve its corporate objectives by adopting policies and practices and offering a compensation plan that is competitive, motivating and rewarding to the degree that it will attract and inspire a diverse work force that will enhance the professionalism and effectiveness of the organization.

#### District Councils

The existing District Council structure of the IDA will be adopted by New Regco, in order to ensure a mechanism for the engagement and representation of Dealer Members in each of the provinces. District Councils will continue their current roles, such as in granting exemptions from registration and other regulatory approvals and providing recommendations to the New Regco Board concerning new Dealer Member applications. The role of the District Councils will be refined to (i) reflect that they do not currently make rules (although they technically currently have the authority to do so) and (ii) ensure that District Councils continue to play a role in the recommendation to the Corporate Governance Committee of candidates for appointment to the New Regco Hearing Committee. Resident hearing panel members will be appointed where required (e.g., Quebec) and, elsewhere, efforts will be made to achieve this result.

#### 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 National Advisory Committee (the "NAC") will continue to be comprised of the District Council Chairs. The mandate of the NAC is to act as a forum for cooperation and consultation among the District Councils and to provide recommendations to the CEO concerning regulatory policy. The NAC is not a forum for the discussion of individual registration, membership or discipline cases. The IDA's Compliance and Legal Section and the Financial Administrator 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 (the IDA's Corporate Finance, Derivatives, Education and Proficiency, Fixed Income, Market Regulation and Retail Sales Committees and RS' Rules Advisory Committee) will have appointed membership. Appointments to such advisory committees may also include non-Members.

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 provide advice to staff of New Regco and report to the New Regco CEO. Each will be asked to conduct an annual "self-assessment" and the New Regco Board will conduct a biennial review of the overall advisory committee structure, to ensure that such committees are relevant and providing meaningful advice in a timely and effective manner.

#### Member Voting Rights

In respect of matters to be voted upon by Members (including the election of Directors), all Members will vote together and be entitled to one vote per Member. Amendments to New Regco's Letters Patent or By-laws, creating a new class of members, amalgamation or plan of arrangement of New Regco or disposition of all or substantially all of its assets will require approval by a two-thirds vote of the Members.

#### Conflicts of Interest

The governance structure, the rule-making and policy development process, the Hearing Committee process, and the disciplinary panel structure will all reflect New Regco's efforts to balance its public interest mandate and the views of its members and persons subject to its jurisdiction ("**Regulated Persons**") as an SRO.

New Regco will have policies and procedures managing potential conflicts of interest of its officers, employees and members of its disciplinary panels, as reflected in a Code of Business Ethics and Conduct (the "**Code**"). New Regco will undertake a review of each division where regulatory decisions are made by staff and will identify specific risk areas associated with potential conflict of interest. The Code will contain policies dealing with potential conflicts of interest in those areas where employees are required to make decisions on behalf of New Regco as part of their regulatory responsibilities. In addition, internal policies and procedures of each division where employees exercise decision-making authority will contain more specific guidelines on how to comply with the Code. Generally, these deal with disclosure of any potential conflicts with Regulated Persons and the allocation of responsibilities among staff that minimizes potential conflicts arising. The Code will be approved by the New Regco Board and acknowledged by officers and employees initially and annually. The policies and procedures of New Regco will require that the Code be reviewed at least annually to ensure that it continues to appropriately meet its objectives.

New Regco will also have a written policy managing potential conflicts of interest of members of its Board, which will be acknowledged by directors initially and on an annual basis.

This policy will be reviewed periodically to ensure that it continues to appropriately meet its objectives.

The foregoing structures and processes reflect the current approach of each of the IDA and RS in ensuring that conflicts of interest do not impair their respective regulatory mandates as SROs. The combination of RS and the IDA will result in the creation of an independent SRO and eliminate conflicts (perceived or real) that arise from the current RS ownership structure. However, it is recognized that there may be new potential “conflicts of interest” that could arise as a result of the combination of a member regulation SRO with a marketplace regulator. Balancing the interests of Dealer Members and Marketplace Members is reflected in the governance structure to be adopted, including the composition of the Board that will have representatives of all constituencies. This will provide a forum where competing interests can be identified and dealt with openly and in accordance with best corporate practices as described above. An example of the potential tensions between the two broad regulated groups will be the allocation of resources and costs. As described elsewhere in this application, the overriding principle of cost recovery and the adoption of a fair fee schedule should address these concerns. From the perspective of day to day regulatory operations of New Regco, an integrated and streamlined New Regco staff will work together and be aware of any tensions and be in a position to resolve them fairly. The adoption of the current separate Member and Marketplace regulatory requirements of the IDA and RS, respectively, acknowledges that there may be separate interests affected in each regulatory area. The separate requirements will permit competing interests to be appropriately managed. Going forward, New Regco will be able to identify potential “conflicts” based on its experience and provide for them by governance changes or rule amendments.

### **Fees**

Upon the creation of New Regco, the existing fee structures of RS (with respect to Marketplace Members) and the IDA (with respect to Dealer Members) will initially be maintained and administered by New Regco, with Members paying fees under the relevant fee structures. ATs will pay fees under both the IDA fee structure for Dealer Members and the RS fee structure for marketplaces, as is presently the case. Both fee models are intended to be neutral and 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 Dealer 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 shareholders 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 Dealer and Marketplace Members 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 contracted with New Regco 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 each of these proposals has ended, and RS is pursuing approval of these proposals with its recognizing regulators. RS and New Regco intend to implement any proposals for which it receives regulatory approval.

### Access

As with the fee model, the existing criteria for access to membership and the provision of regulation services will be preserved in New Regco, as will the process for obtaining such access. New Regco's By-law provides that any decision with respect to a membership application is subject to review at the request of the applicant (or New Regco staff). Any changes to the criteria or process for obtaining access will be developed and implemented in a fair and transparent manner and subject to New Regco Board approval as well as CSA approval.

Dealers that are currently members of the IDA and Marketplaces for which RS is the regulation services provider will be Members of New Regco and no additional acceptance or approval requirements, other than compliance with the transitional processes described below, will be required to be met by such Dealers and Marketplaces.

*Acceptance of Dealer Members for Membership*

IDA members will be required to confirm their membership as Dealer Members in New Regco and attornment 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 Dealer Members will become subject to the jurisdiction of New Regco without further action on their part. Section 3.5 of the By-law (a copy of which is attached as Schedule 3 to the IDA Information Circular) outlines the process for approval of new Dealer Members, which is substantially the same as that set out in the IDA's proposals to amend its application process, which were submitted for CSA approval in March 2007 and as have since been amended.

In view of the fact that the nature of the regulation of Dealer Members and the jurisdiction of New Regco over such Members will not change substantially from that of the IDA, a simplified and expedited application process to New Regco is appropriate.

*Acceptance of Marketplace Members for Membership*

The basis for membership of Marketplaces in New Regco, described below, reflects that of RS in that it arises by entering into a regulation services agreement (“**RSA**”). It is expected that existing RSAs will be assigned to, or restated in the name of, New Regco without renegotiation and will be a simple and expedited membership process corresponding to that applicable to Dealer Members.

It will likely be necessary for an ATS to enter into new agreements with its Access Persons if those agreements specify that RS is the beneficiary of the subscriber's covenants and there are no provisions in the agreement automatically extending the benefit of the agreement to New Regco. RS will work with the ATSs to identify situations in which new subscriber agreements are required and to develop a process that is as simple and streamlined as possible to obtain such new agreements.

*Eligibility Status*

A Marketplace is eligible to subscribe to be regulated by New Regco as its RSP so long as it is a recognized exchange, a QTRS or an ATS, as each is defined in National Instrument 21-101.

*Contractual Conditions*

To receive regulation services from New Regco, an eligible Marketplace must enter into an RSA with New Regco, which agreement shall include the following terms:

1. Marketplaces will retain New Regco to administer and enforce the market integrity rules adopted from time to time by New Regco. Marketplaces will require their members, users and subscribers, as the case may be (“**marketplace participants**”) to comply with New Regco's market integrity rules as a condition of participation.

2. The rules, by-laws and contracts governing the access granted by the Marketplace to its marketplace participants shall provide that the marketplace participant, together with its present and former directors, officers and employees and various other related or affiliated entities, is subject to the jurisdiction of New Regco with respect to the administration and enforcement of New Regco's market integrity rules.
3. The Marketplace must have systems in place that meet New Regco requirements in respect of surveillance and reporting, including New Regco requirements relating to data feeds and the ability to give effect to any direction issued by New Regco with respect to the administration of New Regco's market integrity rules, including provision for trading halts, delays and suspensions.
4. Standard or usual contractual terms including: circumstances for cancellation of the RSA, transitional procedures, covenants, dispute resolution, notice, amendments, etc.
5. A term requiring receipt of approval of the RSA from the relevant securities regulatory authorities.
6. Provisions required by the applicable provisions of Part 7 of National Instrument 23-101 or other requirements established by the applicable securities regulatory authorities.

### **Financial Viability**

New Regco will be a non-share capital, membership-based, not-for-profit corporation. As with RS and the IDA (as well as many of the provincial Securities Commissions), its financial model is based on the collection of fees from Members in order to recover the costs incurred in its regulatory activities.

At the outset, New Regco will acquire all of the assets (and assume all of the liabilities) of the IDA and RS, including the balances in the IDA Discretionary Fund and the RS Restricted Fund (which will be transferred to the New Regco Restricted Fund and used solely for prescribed purposes as described in the IDA Information Circular). The costs relating to the combination of RS and the IDA and start-up of New Regco are being borne, proportionately (on a 40%/60% basis), by the RS/IDA Restricted/Discretionary Funds.

### **Capacity to Perform Regulation Functions**

#### **Recognition Orders**

The independence, mandate and obligations of New Regco will be prescribed as terms and conditions of its Recognition Order(s) and Delegation Rulings, based largely upon outstanding Recognition Orders granted to RS and the IDA. As with RS and the IDA, the relevant securities regulators' oversight is expected to include: approval of rules, periodic reporting and triennial oversight examinations, which will enable the relevant securities

regulators to ensure that New Regco acts in a manner consistent with the public interest in carrying out its mandate as an SRO and RSP.

### Regulation Services

New Regco will seek to protect investors, foster investor confidence and enhance the fairness and efficiency of Canadian capital markets through the provision of effective self-regulation of Members, their representatives and other persons subject its jurisdiction. As a neutral, cost-effective and responsive SRO, New Regco will not discriminate between Members. New Regco will assume all of the regulatory responsibilities and perform all of the regulatory services currently being performed by RS and the IDA.

Under the applicable National Instruments, orders granted under the National Instruments by certain securities commissions, and its RSAs, RS has, and New Regco will have, jurisdiction over the trading conduct of subscribers of an ATS that are not Dealer Members (“Access Persons”). In April 2007, the provincial securities commissions in British Columbia, Alberta, Manitoba, Ontario and Quebec 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 the ATS. To the extent that these proposals are implemented, New Regco will assume this jurisdiction as part of its market regulation function

### Transitional Jurisdiction

New Regco will assume jurisdiction over the conduct of Dealer Members and over the trading conduct of all members, users and subscribers of Marketplace Members for investigations or enforcement actions in progress at the time New Regco commences its regulatory activities. Dealer Members and Access Persons will be expected to attorn to the jurisdiction of New Regco for all purposes, including their actions while under IDA and/or RS jurisdiction before the combination. The IDA and RS will continue for a period of time (expected to be five years, as discussed below), in part to permit them to carry out disciplinary actions against persons subject to their jurisdiction prior to the combination.

The need to continue the IDA and RS for a period of time after the establishment of New Regco arises from the fact that the jurisdiction of New Regco to carry out enforcement actions (either new actions or continuing ones) against former IDA members and approved persons or against those formerly subject to the jurisdiction of RS cannot be assured except by the agreement or attornment of such members or persons. The concern does not likely arise for practical purposes to the extent that existing IDA members join New Regco (and approved persons continue in the employment of such members or other members subject to New Regco’s jurisdiction) and Access Persons attorn to the jurisdiction of New Regco.

In order to avoid jurisdictional challenges in relation to violations occurring prior to the creation of New Regco, the IDA and RS will continue for a period of time. Five years is viewed as a reasonable period for any continuing proceedings to be completed or new proceedings to be initiated. However, the experience has been that occasionally proceedings take longer –

particularly those that are important and in the public interest to pursue. Accordingly, the ability to impose a discretionary extension has been included if either of the IDA or RS Boards consider it necessary or desirable.

Subject to any major disciplinary proceedings arising that either the IDA or RS choose to pursue or continue, their respective funding requirements are expected to be insignificant. To the extent that more significant funding is required for such proceedings, New Regco will provide the necessary funds. As between the IDA and RS, and among the Dealer and Marketplace Members of New Regco, such funding requirements would be taken into account in the fee models that will be developed and be the subject of the cost recovery principles described above.

### *Capacity and Integrity of Systems*

New Regco will perform its Dealer Member regulation function using the systems currently used by the IDA, including those systems currently provided to the IDA by various external service providers. The existing service agreements between the IDA and its service providers will be assigned to New Regco.

New Regco will perform its market regulation function using the systems currently used by RS, including those systems currently provided to RS by TSX. New Regco and TSX intend to enter into a Technology Services Agreement (“TSA”) under which TSX will provide technology services to New Regco corresponding to those regulatory technology services provided to RS. The TSA has been enhanced and now contains added confidentiality and firewall provisions designed to ensure that personnel involved in the marketplace operations of TSX do not have access to confidential or proprietary information relating to New Regco or the other marketplaces for which New Regco is the RSP. Non-regulatory technology systems currently provided to RS by TSX (such as desktop computer support and e-mail) will not be provided to New Regco by TSX, but will be provided by a single supplier for all of New Regco personnel.

### *Capacity Planning and Management*

New Regco will ensure that systems capacity planning is undertaken on a regular basis and system upgrades and storage and managed carefully. With respect to the market surveillance functions, New Regco will regularly forecast its expected data volumes and if necessary implement system changes. New Regco will also continue the work that RS has begun to provide automated monitoring of multiple marketplaces.

### *Development and Testing Methodologies*

New Regco will use development and testing cycles that do not interfere with its operating systems. New Regco will regularly review and update its development and testing methodologies, either internally or through its service providers.

### *System Vulnerability*

The level of exposure to threats and system vulnerability for New Regco will vary based on whether the system is critical or not. Sensitive regulatory data will be kept secure and

confidential, within the organization and in relation to service providers. New Regco will ensure that all of its services providers will implement confidentiality and firewall provisions to ensure that service personnel involved do not have access to confidential or proprietary information relating to New Regco or marketplace activities.

#### Contingency Planning, Disaster Recovery & Business Continuity Plans

New Regco will have written contingency, business continuity and disaster recovery plans, which will include specific criteria for all critical system applications. All market surveillance systems will have full redundancy with two live sites running in parallel and personnel backup in other New Regco offices. The IDA is in the process of establishing a disaster recovery site in Vancouver managed by Quiettouch Inc., the IDA's current datacentre and network services provider. It is expected that this site will be operational pre-merger.

RS had developed a comprehensive business continuity plan adapted for an influenza pandemic scenario. The IDA is currently working to develop a similar Influenza Pandemic Plan. This plan will be finalized before the end of this calendar year. New Regco will also adopt the format of the Pandemic Plan currently in use at RS, amalgamating the content from the IDA's and RS's plans, as appropriate.

#### Purpose of Rules

New Regco will, subject to the terms and conditions of the Recognition Order(s) and the jurisdiction and oversight of the relevant securities regulators, establish rules, regulations or policies: (i) to promote the protection of investors; (ii) to prevent fraudulent and manipulative acts and practices; (iii) to promote just and equitable principles of trade and the duty to act fairly, honestly and in good faith; (iv) to foster cooperation and coordination with persons or companies engaged in regulating, clearing, settling and processing information about, and facilitating transactions in, securities (v) to foster fair, equitable and ethical business practices; (vi) to ensure compliance with securities legislation and SRO rules; and (vii) to provide for appropriate discipline of those whose conduct it regulates.

New Regco's rules will not unfairly discriminate among those subject to its regulation nor impose any unnecessary burden or constraint on competition or innovation.

Initially, it is the intention of New Regco to adopt and administer the regulatory requirements currently contained in the by-laws, rules, policies and regulations of the IDA and the Universal Market Integrity Rules (UMIR) (collectively, the "New Regco Rules"). Any proposal for amendment to the New Regco Rules would be submitted to the CSA for approval in accordance with the procedures established under a protocol between New Regco, as an SRO and RSP, and the applicable securities regulatory authorities.

#### Financial Statements

New Regco will provide to each jurisdiction recognizing it as an SRO audited annual financial statements within ninety days of its fiscal year end, as is the current practice of the IDA (and of the MFDA and CIPF). New Regco will also present to Members audited annual financial statements and the report of the auditors thereon.

### **Discipline Process**

New Regco's rules for the discipline of persons or companies subject to its regulation are based on those of the IDA and RS. The process for disciplining Members and others will be fair, transparent and will provide for due process. Any reviewable decision by New Regco, including any disciplinary or enforcement decision, will be reviewable by the securities regulatory authority having appropriate jurisdiction.

### **Quebec Requirements**

New Regco will comply fully with Section 69 of the act respecting the Autorité des marchés financiers.

There will be no change in the way New Regco conducts member regulation activity. New Regco will continue to conduct and supervise member compliance, analysis and enforcement activities by staff in Quebec. Initial IDA ComSet analysis will continue to be conducted in Toronto because one person has to assess all the submissions and decide where the matter should best be referred. All matters relating to individuals and firms in Quebec are and will continue to be referred to Montreal for case assessment.

RS Market Surveillance and Trade Review and Analysis are currently conducted by staff in Toronto. These activities should, for reasons of staff expertise, systems access and real-time response requirements, remain in Toronto. We would propose to establish a Market Surveillance team in Montreal if and when New Regco begins to regulate a market in Quebec. However, decisions relative to those activities that involve people or firms in Quebec will be taken by the Vice-President, Quebec.

Trade desk examinations will initially be carried on by bilingual staff in Toronto. There will be coordination and communications between Toronto and Montreal office staff in order to facilitate decisions concerning trade desk compliance reports being made by the Vice-President, Quebec. In addition, once the merger is completed, New Regco will begin to develop the trade desk examination expertise with the staff in Montreal.

Quebec focused market regulation enforcement files (investigations and prosecutions) will initially be carried on by staff in Toronto. All communication in the course of an investigation with individuals will be conducted in the language of their choice. There will be coordination and communication between Toronto and Montreal office staff in order to facilitate decisions concerning enforcement matters being made by the Vice-President, Quebec. All decisions concerning investigation and prosecution of market enforcement cases will be made by the Vice-President, Quebec and those cases will be presented by Quebec enforcement counsel (internal or external). In addition, once the merger is completed, New Regco will begin to develop market enforcement expertise with the staff in Montreal.

We plan to create a new position in the Montreal office following the merger so that there is an individual with market expertise located in the Quebec office to help coordinate and to manage the transfer of trade desk and market enforcement expertise and to help train Montreal staff.

The members of the hearing panels of New Regco in respect of matters involving Quebec residents will be from Quebec. Currently, RS already calls on hearing panel members who reside in Quebec, some of whom also work with the IDA.

Finally, in matters of registration, the delegation of authority to be sought from the AMF will confirm that section 69 of the Quebec securities legislation is being respected.

**Information Sharing and Regulatory Cooperation**

New Regco will provide all necessary notices and information to each jurisdiction recognizing New Regco as an SRO except as may be otherwise indicated in an applicable recognition order or directions provided by such jurisdictions.

As specified in the draft Recognition Order(s), New Regco will be willing and able to cooperate, subject to applicable law, in sharing information with the relevant securities regulators and their staff and with other regulatory authorities and SROs responsible for the supervision or regulation of securities firms, markets and financial institutions.

Sincerely,

*"Susan Wolburgh Jenah"*

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*"Maureen Jensen"*

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*Attachments:*

*Appendix A – Draft Recognition Order*