

**COMPANION POLICY 33-105CP
TO MULTI-JURISDICTIONAL INSTRUMENT 33-105
UNDERWRITING CONFLICTS**

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PART 1	INTRODUCTION	
1.1	Purpose - The purpose of this Policy is to state the views of the Canadian securities regulatory authorities on various matters relating to Multi-Jurisdictional Instrument 33-105 Underwriting Conflicts (the "Instrument"), and to provide market participants with guidance in understanding the operation of the Instrument and the policy concerns that lie behind some of the provisions of the Instrument. This Policy includes, as Appendix A, a series of flow charts designed to illustrate the analysis required to be made in determining whether a party falls under certain of the defined terms of the Instrument and whether the requirements of the Instrument apply to a given distribution. The flow charts are for illustrative purposes only and, in all cases, reference should be made to the precise language of the Instrument.	
1.2	General Policy Rationale for the Instrument	
	(1) Two of the basic objectives of Canadian securities legislation are to ensure that investors purchasing securities in the course of a distribution	

purchase those securities at a price determined through a process unaffected by conflicts of interest, and receive full, true and plain disclosure of all material facts regarding the issuer and the securities offered. The Instrument is based upon the premise that those objectives are best achieved if the issuer and the underwriters deal with each other as independent parties, free of any relationship that might negatively affect the performance of their respective roles.

- (2) The Instrument seeks to protect the integrity of the underwriting process in circumstances in which there is a direct or indirect relationship between the issuer or selling securityholder and the underwriter that might give rise to a perception that they are not independent of each other in connection with a distribution. The Instrument imposes two basic requirements in those circumstances. First, full disclosure of the relationships giving rise to the potential conflict of interest is required to be given to investors, and second, an independent underwriter is required in certain circumstances to participate in the transaction.

PART 2 GENERAL STRUCTURE OF THE INSTRUMENT

2.1 Relationships of Concern

- (1) The Instrument identifies three types of relationship between a registrant acting as underwriter on a distribution and the issuer or selling securityholder of securities in the distribution that give rise to concerns over conflicts of interest; each of these relationships may be subject to the requirements of the Instrument.
 - (a) The registrant as issuer or selling securityholder. This relationship represents the relationship with the highest degree of conflict of the three recognized by the Instrument.
 - (b) An issuer or selling securityholder that is a "related issuer" of the registrant (other than the extended definition of "related issuer" under paragraph 1.2(2)(c) of the Instrument). This relationship is created primarily as the result of cross-ownership between an issuer or selling securityholder and the registrant. In the Instrument, a "related issuer" is included in the definition of "connected issuer" (paragraph (a) of the latter definition). Subsection 1.2(2) of the Instrument provides that an entity is a related issuer to another entity if one of them is an "influential securityholder" of the other, or each of them is a related issuer of a third party.
 - (c) An issuer or selling securityholder that is not a related issuer of the registrant, but that has some other relationship with the registrant that would cause a reasonable prospective purchaser of the securities being offered to question if the registrant and the issuer or selling securityholder are independent of each other for the distribution. This type of issuer is a "connected issuer" under paragraphs (b) and (c) of the definition of "connected issuer".
- (2) The Instrument recognizes the relative degrees of relationships and the resulting potential for conflict by making fewer exemptions available for

distributions by registrants and their related issuers than for connected issuers that are not related issuers.

- (3) The term "independent underwriter" is defined in the Instrument to mean a registrant acting as direct underwriter in a distribution if the registrant does not have one of the relationships with the issuer or selling securityholder described in this section. The term "non-independent underwriter" is used in this Policy to describe a registrant acting as direct underwriter that does have one of those relationships.

2.2 General Requirements of the Instrument - The general requirements of the Instrument, contained in section 2.1, provide, in effect, that a registrant that would be a non-independent underwriter on a distribution may not act as a direct underwriter in the distribution, unless two requirements are satisfied or an exemption is available. The two requirements are the disclosure obligation, required by paragraph 2.1(a) of the Instrument and discussed in section 2.3 of this Policy, and the independent underwriter obligation, required by paragraph 2.1(b) of the Instrument and discussed in section 2.4 of this Policy. The exemption from the independent underwriter obligation is contained in section 3.2 of the Instrument and discussed in Part 3 of this Policy.

2.3 Disclosure Obligation - The disclosure obligation applicable to a distribution in which a non-independent underwriter participates, contained in paragraph 2.1(a) of the Instrument, requires that the distribution be made under a prospectus or other document that contains the information described in Appendix C of the Instrument. This requirement is applicable both to transactions made under a prospectus and to those done by way of a private placement without a prospectus. Appendix C is designed to require full disclosure of the relationship between the underwriter and issuer or selling securityholder.

2.4 Independent Underwriter Obligation

- (1) The independent underwriter obligation applicable to a distribution in which a non-independent underwriter participates, contained in paragraph 2.1(b) of the Instrument, requires that an independent underwriter also participate in the distribution to the extent required by that paragraph if the distribution is made under a prospectus. There is no independent underwriter obligation for a distribution made other than under a prospectus.
- (2) The independent underwriter obligation is satisfied if one independent underwriter underwrites not less than the lesser of 20 percent of the dollar value of the distribution or an amount equal to that underwritten by the non-independent underwriter with the largest portion of the distribution.
- (3) Paragraph 2.1(c) of the Instrument requires the prospectus to disclose what role the independent underwriter played in the structuring, pricing and due diligence activities of the distribution. The Canadian securities regulatory authorities note that the Instrument does not specify what functions the independent underwriter must fulfil, because it is recognized that the appropriate role will vary according to the nature of the distribution and the issuer or selling securityholder, and because it is expected that the requirement to disclose the role actually played will

impose a measure of market discipline on the process. Paragraph 2.1(c) of the Instrument requires the name of the independent underwriter to be disclosed.

PART 3 EXEMPTION FROM INDEPENDENT UNDERWRITER REQUIREMENT

3.1 Exemption From Independent Underwriter Requirement

- (1) Section 3.2 of the Instrument provides an exemption from the independent underwriter requirement for some distributions in which the issuer or selling securityholder in the distribution is a connected issuer of an underwriter involved in the distribution, but not a related issuer of that underwriter. The exemption is available if
 - (a) the issuer or selling securityholder is not a "specified party" within the meaning of the Instrument; or
 - (b) if the issuer or selling securityholder is a connected issuer of the underwriter only because of indebtedness, the issuer or selling securityholder has only a "minor debt relationship" with the underwriter.
- (2) A specified party is a person or company that is under some financial stress, as set out in the definition of "specified party" in the Instrument. This definition is designed to delineate factors that would give an early signal of when the financial condition of the issuer or selling securityholder was beginning to deteriorate. The Canadian securities regulatory authorities are of the view that in cases in which one or more of these indicia are present, an issuer or selling securityholder may be more subject to influence by the interests of creditors and have less ability to locate alternative sources of financing. At the same time, the deteriorating financial condition may create a perception in the context of a distribution that an underwriter that is related to one of the issuer's or selling securityholder's creditors (thereby making the issuer or selling securityholder a connected issuer to the underwriter) might favour the creditors' interests over the investors' interests in the performance of its due diligence, pricing and disclosure activities for the distribution. The presence of one or more of the indicia is sufficient to make the participation of an independent underwriter mandatory, unless the relationship between the issuer or selling securityholder is only a minor debt relationship.
- (3) The Canadian securities regulatory authorities note that paragraph (a) of the definition of "specified party" refers to the most recent financial statements of a person or company that disclose a material adverse financial condition. This reference would include both audited annual and unaudited interim financial statements of the person or company. The definition would include a broad range of symptoms of financial stress. Examples would be liquidity or solvency problems, as evidenced by deficiencies in working capital or negative equity.
- (4) The Canadian securities regulatory authorities also note that paragraph (i) of the definition of "specified party" would include both proceedings

and actions initiated by the "specified party" and those initiated by other parties.

- (5) Clauses 3.2(b)(i)(B) and (ii)(B) of the Instrument implement the minor debt relationship branch of the independent underwriter exemption described above. A debt relationship is treated as a minor debt relationship if the aggregate value of the liabilities of the issuer or selling securityholder (and their related issuers) to the non-independent underwriter (and its related issuers) plus the amount of preferred shares owned by the registrant group in the issuer or selling securityholder is less than 10 percent of the value of the issuer's or selling securityholder's equity as shown on the financial statements of the issuer or selling securityholder. The calculation of the percentage of liabilities held is to be done using the values of the loans and other securities reported on the most recent balance sheet of the issuer or selling securityholder before the distribution takes place. Therefore, in most cases, the respective values of liabilities, preferred shares and equity will be book or historical values, not current market valuations.
- (6) The Instrument defines "liabilities" with reference to Canadian GAAP, so that the amount owed by a debtor for the purposes of the Instrument should be determined with reference to its financial statements in accordance with Canadian GAAP. To the extent that contingent liabilities or large mark-to-market obligations on off-balance sheet transactions are not categorized as liabilities by Canadian GAAP, no amount would be considered to be owing.

PART 4 COMMENTARY ON RELATIONSHIPS DESCRIBED IN THE INSTRUMENT

4.1 Related Issuers

- (1) Common ownership is the traditional measure of a non-arm's length relationship in which a conflict of interest is seen to arise. The definition of "related issuer", together with the definitions of "influential securityholder" and "professional group", contain the test used in the Instrument for these non-arm's length relationships.
- (2) The Instrument provides that two persons or companies are related issuers of each other if one of them is an influential securityholder of the other, or if each of them are related issuers to a third person or company.
- (3) The term "influential securityholder" is defined to include relationships between an issuer and another person or company or, in some cases, a professional group, that involve specified thresholds of share ownership or rights to elect directors, as summarized in subsection (4).
- (4) Briefly stated, a person or company or professional group ("A") is an influential securityholder of an issuer ("I") under the definition of "influential securityholder" in the following circumstances.
 1. A owns or controls 20 percent of the voting or equity securities of I (paragraph (a) of the definition).

2. A owns or controls 10 percent of the voting or equity securities of I and either
 - (a) A is entitled to nominate 20 percent of the directors of I or has officers, directors or shareholders that constitute 20 percent of the directors of I; or
 - (b) I is entitled to nominate 20 percent of the directors of A or has officers, directors or shareholders that constitute 20 percent of the directors of A (paragraph (b) of the definition).
3. I owns or controls 10 percent of the voting or equity securities of A (other than a professional group) and either
 - (a) A is entitled to nominate 20 percent of the directors of I or has officers, directors or shareholders that constitute 20 percent of the directors of I; or
 - (b) I is entitled to nominate 20 percent of the directors of A or has officers, directors or shareholders that constitute 20 percent of the directors of A (paragraph (c) of the definition).

Paragraph (c) of the definition contains no reference to professional groups in recognition of the fact that it is not possible to hold a voting or equity interest in such an entity nor does such an entity have a board of directors.

4. If a professional group is an influential securityholder of I within paragraphs (a) or (b) of the definition, then the registrant that is part of that professional group will also be an influential securityholder of I (paragraph (d) of the definition).
- (5) It is noted that under subsection 1.2(2) of the Instrument only a person or company can be a related issuer of another person or company; therefore, a professional group cannot be a related issuer of a person or company even if it is an influential securityholder of that person or company. Professional groups have been included in the definition of "influential securityholder" in order to allow paragraph (d) of the definition of "influential securityholder" to operate; this ensures that the registrant that is part of a professional group that is an influential securityholder of a person or company is itself an influential securityholder, and therefore a related issuer, of that person or company.
- (6) The definition of "professional group" includes "any person or company performing corporate finance services on behalf of the registrant". The Canadian securities regulatory authorities interpret this phrase to include those persons who would have access to inside information concerning an issuer, including possible transactions being considered by an issuer, through their position in, or in relation to, the corporate finance group of a registrant. This would normally include persons carrying on financial advisory, mergers and acquisitions and underwriting activities.

- (7) The Canadian securities regulatory authorities note the following matters relating to the "influential securityholder" tests:
1. The definition of "influential securityholder" requires an aggregation of all securities held, directly or indirectly beneficially owned and ones over which the holder has the right to direct the voting.
 2. Paragraphs 1.2(2)(a) and (b) provide that A is a related issuer of B if A is an influential securityholder of B or if B is an influential securityholder of A. Paragraph 1.2(2)(c) of the Instrument ties together all related issuers by providing that two persons or companies that are related issuers of a third person or company are related issuers of each other. The following examples illustrate the operation of paragraph 1.2(2)(c).
 - (a) If A is an influential securityholder of B, meaning that A is a related issuer of B under paragraph 1.2(2)(a), and B is an influential securityholder of C, meaning that C is a related issuer of B under paragraph 1.2(2)(b), then A is a related issuer of C, since both A and C are related issuers of the same person, B.
 - (b) If D is an influential securityholder of both E and F, meaning that D is a related issuer of both E and F, then E and F are related issuers of each other.
 3. There is no provision in the Instrument for "diluting" indirect ownership interests in making calculations. Therefore, if A owns 45 percent of the voting shares of B that in turn owns 22 percent of the voting shares of C, all three of A, B, and C are related issuers of each other.
 4. The operation of paragraph 1.2(1)(a) of the Instrument requires, in effect, the calculation of a person or company's percentage ownership in another person or company to be done twice; first, only the outstanding voting or equity securities held would be counted, and, second, if the 10 percent or 20 percent ownership level is not reached, the calculation should be repeated on a fully diluted basis, assuming all convertible or exchangeable securities of the relevant class issued and outstanding were converted or exchanged.

4.2 Connected Issuers

- (1) One relationship described in section 2.1 of this Policy as being of concern in connection with conflict matters is that of an issuer that is a connected issuer, but not a related issuer, to a registrant in a distribution. This relationship historically has led to some difficulties of interpretation under analogous provisions of Canadian securities legislation. Paragraphs (b) and (c) of the definition of "connected issuer" in the Instrument provide that the test for whether an issuer/selling securityholder and registrant are "connected" is whether the relationship between the issuer or selling securityholder (or their related issuers) and

a registrant (or its related issuers) would lead a reasonable prospective purchaser of the securities to question the independence of such parties for purposes of the distribution.

- (2) The test contained in the definition requires that the question of independence, or lack of independence, of a registrant be determined with reference to the activities of concern in a distribution and from the viewpoint of a reasonable prospective purchaser. The key issues that the Canadian securities regulatory authorities consider to be important in making that assessment are
 - (a) whether the investor would perceive that the relationship would interfere with the ability or inclination of the registrant to do proper due diligence, or to ensure complete disclosure of all material facts related to the issuer or affect the price placed on the securities being distributed; and
 - (b) whether the investor would perceive that the relationship would make the issuer or selling securityholder more subject to influence in the disclosure, due diligence or pricing process from the underwriter or its related issuer.

In either case, would the result be that some party's interests are perceived to be favoured to the detriment of those of investors?

- (3) As in the case of related issuers, a relationship of concern may arise directly between the issuer or selling securityholder and the registrant or indirectly through one or more related issuers of either the issuer or selling securityholder or the registrant or any of them.

4.3

Issues Relating to "Connected Issuer" Relationships

- (1) Paragraphs (b) and (c) of the definition of "connected issuer" are designed to catch relationships of concern between the issuer/selling securityholder and the registrant that are not related issuer relationships. For example, if a significant shareholder of the registrant is the chairman of the board of directors of the issuer and another related issuer of the registrant owns a large number of preferred shares that are to be repaid out of the proceeds of a distribution, the issuer may be a connected issuer of the registrant for the purposes of the distribution. In each case, the issuer, registrant and their advisers will have to weigh the totality of the relationships between the issuer and the registrant against whether a prospective purchaser might question the independence of the issuer and dealer to determine if there is a connected issuer relationship.
- (2) The mere existence of a debtor/creditor relationship between the issuer and the registrant, or any of their respective related issuers, does not necessarily give rise to a connected issuer relationship. The test is whether in the circumstances the relationships among the parties might, in the view of a reasonable prospective purchaser, affect their independence from one another. Factors that may be relevant in reaching the conclusion in cases in which the relationship is debtor/creditor may include the size of the debt, the materiality of the amount of the debt to both the creditor and debtor, the terms of the debt,

whether the lending arrangement is in good standing, and whether the proceeds of the issue are being used for repayment of the debt. The Canadian securities regulatory authorities note that, although an exemption from the independent underwriter obligation is provided for a minor debt relationship by section 3.2 of the Instrument, there is no implication intended that the existence of liabilities above the levels for which the exemption is available necessarily must lead to the implication that a connected issuer relationship is established.

- (3) Preference shares are not presently treated by Canadian GAAP as liabilities on the balance sheet of issuers, although they may be held by investors as an alternative to making loans or holding securities more conventionally thought of as debt. If there is cross-ownership of a material number of preference shares, there may be a relationship of concern between the issuer or selling securityholder and the registrant. Factors to be considered include the terms of the preference shares (whether the shares are term preferred shares, redeemable at the option of the holder, or represent relatively permanent capital of the issuer or selling securityholder) and the materiality of the shareholding to the issuer or selling securityholder or to the preference shareholder.
- (4) Most relationships of concern are likely to arise through debtor/creditor relationships or cross-ownership. However, in some circumstances there may be other relationships between the issuer or selling securityholder and the underwriter that raise concerns. These other business relationships would have to be material to the issuer, selling securityholder, underwriter or one or more of their related entities and give rise to some special interest in the continued viability of the other entity or the success of the distribution over and above that of other entities with a similar relationship with that company. The Canadian securities regulatory authorities consider that the following relationships, among others, could be material in this context.
 1. A relationship in which an issuer was a joint venture partner with a person that owed money to a related party of a registrant could raise conflict issues. In circumstances in which the joint venture party needed funds to be able to satisfy its obligations to the related party of the registrant, and those funds would be provided by the issuer following a distribution, there is the possibility that the registrant might be motivated in an underwriting for the issuer by interests other than those of an independent underwriter.
 2. A relationship in which an issuer's supplier was a related party of a registrant could also raise conflict issues, particularly if the financial condition of the issuer could put the supply arrangements in jeopardy. The registrant could be motivated to act inappropriately in raising equity for the issuer.
 3. Franchise relationships could also raise conflict issues. An issuer that is a franchisor might need to raise funds to support its franchisees or to keep the entire franchise arrangement in place. If the registrant was a related party of creditors of the franchisees that were dependent upon a successful offering to raise such

funds, the independence of the registrant might be compromised.

PART 5

APPENDICES

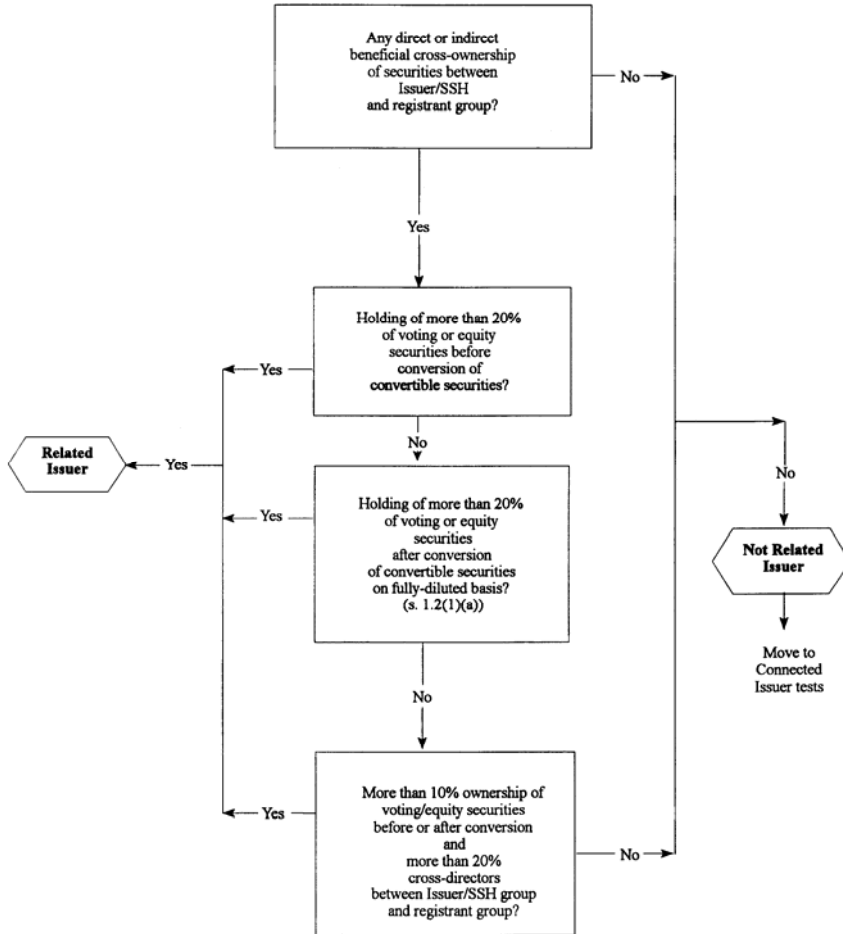
5.1

Appendices - To illustrate the analysis required to be made in determining the application of the Instrument to a distribution, Appendices A-1, A-2, A-3 and A-4 have been included in this Policy. Appendices A-1 and A-2 assist in determining whether parties are related issuers. Appendix A-3 assists in determining whether parties are connected issuers to registrants. Appendix A-4 provides a general analysis of whether, or how, the Instrument applies to a given distribution.

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**APPENDIX A-1
RELATED ISSUER**

Relevant provisions: s.1.1: "influential securityholder" & s.1.2(1), (2)

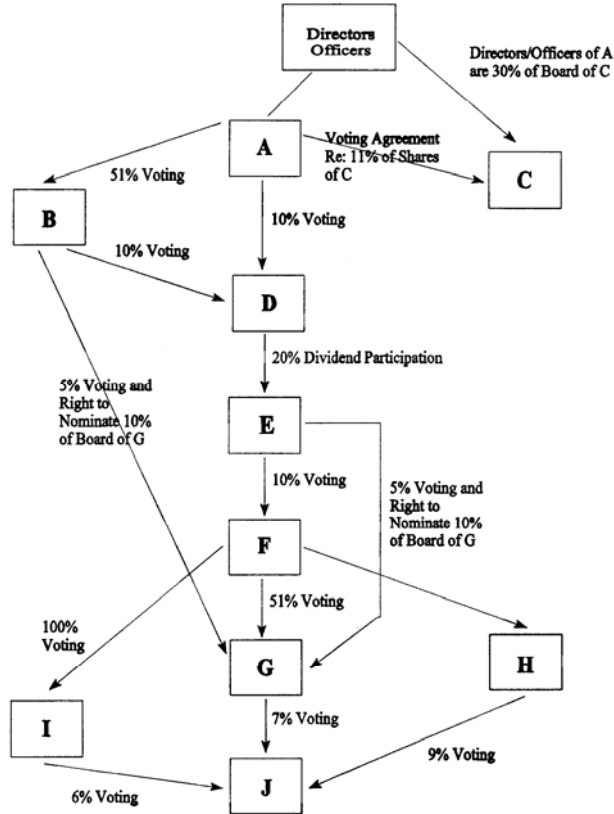


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APPENDIX A-2

RELATED ISSUER - INFLUENTIAL SECURITYHOLDER

All of A-J are Related Issuers of Each Other
Relevant provisions: s.1.1 "influential securityholder" & s.1.2(1), (2)

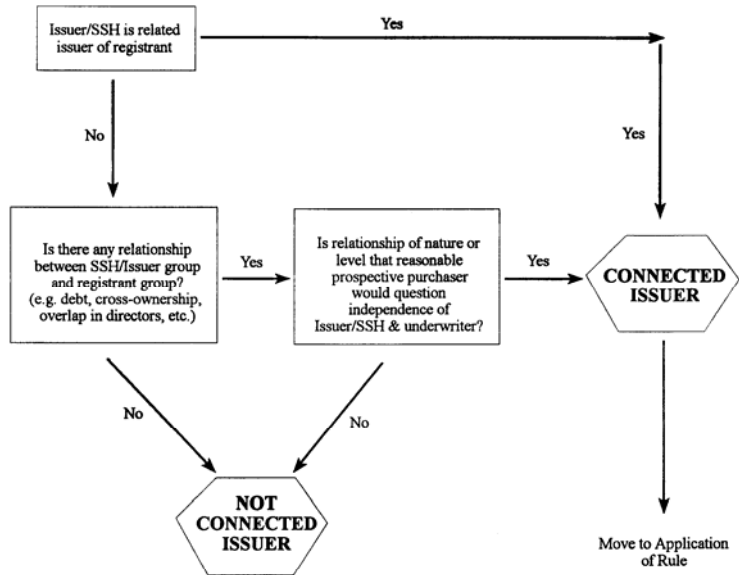


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APPENDIX A-3

CONNECTED ISSUER

Relevant provisions: s.1.1 "connected issuer"



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APPENDIX A-4

APPLICATION OF RULE

