

MEMORANDUM OF UNDERSTANDING

B E T W E E N:

Alberta Securities Commission;  
Autorité des marchés financiers (Québec);  
British Columbia Securities Commission;  
Manitoba Securities Commission;  
New Brunswick Securities Commission;  
Securities Division, Department of Government Services & Lands (Newfoundland and  
Labrador);  
Office of the Registrar of Securities (Northwest Territories);  
Nova Scotia Securities Commission;  
Department of Justice, Legal Registries Division (Nunavut);  
Ontario Securities Commission;  
Department of Community Affairs and Attorney General (Prince Edward Island);  
Saskatchewan Financial Services Commission;  
Registrar of Securities (Yukon)

(each, a “Regulator”)  
(collectively, the “Canadian Securities Administrators”)

- and –

Canadian Investor Protection Fund,  
a corporation incorporated under the laws of Canada

The parties agree as follows:

**1. Underlying Principles**

**1.1 Participation in a Compensation or Contingency Fund**

The Canadian Securities Administrators (the “CSA”) consist of the authority in each Canadian province and territory that, under statute, regulates the securities industry within its jurisdiction. Each Regulator is responsible for promoting both investor protection and fair and efficient capital markets in its jurisdiction.

Securities laws and regulations in each Canadian province and territory may require registered dealers to participate in a compensation fund or contingency trust fund approved by the Regulator or a contingency fund deemed acceptable by the Regulator (collectively, “compensation or contingency fund”) and established by, among others, a self-regulatory organization (“SRO”).

Certain Regulators have issued Approvals of or a Deemed Acceptable Decision for the Canadian Investor Protection Fund (the “CIPF”) as a compensation or contingency fund.

## 1.2 The Canadian Investor Protection Fund

The CIPF was established by its sponsoring SROs to protect Customers who have suffered financial loss due to the failure of a Member Firm of any one of the sponsoring SROs. As of the effective date of this Memorandum of Understanding (“MOU”), the Investment Dealers Association of Canada (“IDA”) is the CIPF’s only sponsoring SRO.

The CIPF will enter into an Industry Agreement with the IDA, or its successor, which contemplates that other SROs may become parties to the agreement.

The CIPF acts, for the purpose of this MOU, as a compensation or contingency fund. It provides protection on a discretionary basis to prescribed limits to eligible Customers of Participating SRO Member Firms suffering losses if Customer property comprising securities, cash and other property held by such Member Firms is unavailable as a result of the insolvency of a Member Firm and, in connection with such coverage, will engage in risk management activities to minimize the likelihood of such losses.

The CIPF is financed by Member Firms through its Participating SROs.

## 1.3 The Memorandum of Understanding

On July 2, 1991, the CIPF entered into a MOU with twelve of the Regulators (the former Commission des valeurs mobilières du Québec (“CVMQ”) was not a party to that MOU), which MOU was subsequently amended. On June 20, 1997, the CIPF entered into a MOU with the CVMQ, which MOU was subsequently amended.

The CSA and the CIPF wish to amend and restate the MOU entered into on July 2, 1991, as amended, to reflect changes in the nature of the CIPF’s role and responsibilities and to enhance the protection of investors and maintain investor confidence in the Canadian capital markets. The Autorité des marchés financiers (“Autorité”) wishes to rescind the MOU between the CIPF and the CVMQ and to become a party to the amended and restated MOU between the CSA and the CIPF.

The Approvals or Deemed Acceptable Decision issued by certain Regulators regarding the CIPF are subject to the CIPF complying with this MOU.

## 2. Definitions

“Applicable Regulator” means each Regulator in the jurisdiction in which a Member Firm is registered.

“Approval” means the approval of the CIPF by the Regulators required pursuant to those securities laws and regulations in each Canadian province and territory which may stipulate that registered dealers must participate in a compensation fund or contingency trust fund approved by the Regulator and established by, among others, an SRO.

“Approving Regulator” means a Regulator that has issued an Approval or a Deemed Acceptable Decision regarding the CIPF.

“Coverage Policies” means policies established from time to time by the CIPF’s Board of Directors pursuant to the section of the Approval and Deemed Acceptable Decision regarding Customer Protection.

“Customer” has the meaning ascribed to that term in the Coverage Policies.

“Deemed Acceptable Decision” means the decision made by the Autorité pursuant to Quebec Securities Regulation which stipulates that a dealer with an unrestricted practice or a discount broker must participate in a contingency fund deemed acceptable by the Autorité.

“Fund” means the liquid assets of the CIPF available for protection of Customers of Member Firms.

“Industry Agreement” means an agreement, as amended from time to time, between the CIPF and any Participating SRO regarding the basis on which the CIPF provides protection to Customers of Member Firms.

“Member Firm” means a member or participant of any of the Participating SROs that is a registered dealer in Canada.

“Participating Regulator” means a Regulator, other than the Principal Regulator, that is participating in an oversight review of the CIPF.

“Participating SRO” means an SRO that is a party to or that becomes a party to the Industry Agreement.

“Principal Regulator” means the Regulator that is designated as such from time to time.

“Reportable Condition” means any condition which could give rise to payments being made out of the Fund, including, without limitation, the suspension,

expulsion or appointment of a monitor in respect of a Member Firm or similar action by a Participating SRO and any condition which has contributed substantially to or, if appropriate corrective action is not taken, could reasonably be expected to:

- (a) inhibit a Member Firm from promptly completing securities transactions, promptly segregating Customers' securities as required or promptly discharging its responsibilities to Customers, other Member Firms and other creditors;
- (b) result in material financial loss;
- (c) result in material misstatements of the Member Firm's financial statements; or
- (d) result in violations of the minimum record requirements of a Participating SRO to an extent that could reasonably be expected to result in the conditions described in parts (a), (b), or (c) above.

### **3. Approval and Deemed Acceptable Decision**

The CIPF will abide by the terms and conditions of any Approval or Deemed Acceptable Decision made by a Regulator.

### **4. Member Reviews**

The CIPF will review, in accordance with the Industry Agreement, the business and operations of any Member Firm, or designated groups of Member Firms, where a situation has occurred that in the opinion of the CIPF constitutes a Reportable Condition.

### **5. Oversight Program**

#### **5.1 Purposes of the Oversight Program**

The CSA have developed a program of oversight for the CIPF to ensure that the CIPF is appropriately discharging its responsibilities as a compensation or contingency fund for Customers of Member Firms. The purposes of this oversight program include but are not limited to:

- (i) determining compliance with this MOU and the terms and conditions of any Approvals or Deemed Acceptable Decision made by the Regulators regarding the CIPF;
- (ii) ensuring that the CIPF continues to have the appropriate governance structure to fulfill its obligations;
- (iii) ensuring that the CIPF is appropriately discharging its core functions;

- (iv) ensuring that the CIPF is managing its risks adequately;
- (v) identifying and addressing any deficiencies in the CIPF's functioning as a compensation or contingency fund for Customers of Member Firms and ensuring the effective resolution of these deficiencies; and
- (vi) ensuring that the CIPF has established and maintains transparent, fair and reasonable Coverage Policies.

## 5.2 Oversight Reviews

As part of this oversight program, the CSA will carry out reviews of the CIPF on a periodic basis.

Staff of the Principal Regulator will solicit interest from staff of the other Regulators with respect to participating in the oversight review. The Regulators that choose to participate will be considered to be Participating Regulators for the purpose of the CIPF oversight review.

Staff of the Principal Regulator will develop the review program in consultation with staff of the Participating Regulators. The Principal Regulator will be responsible for adequate staffing of the review and co-ordinating the review and resulting report with staff of the Participating Regulators.

At the conclusion of a CIPF review, staffs of the Principal Regulator and the Participating Regulators will finalize the review report. In finalizing the review report, staffs of the Principal Regulator and the Participating Regulators will use their best efforts to follow the procedures set out in Schedule A to this MOU, or such other procedures as agreed upon by the Principal Regulator and the Participating Regulators, taking into account language translation needs, where applicable.

## 5.3 Reporting to the CSA

### 5.3.1 Reporting Obligations

The CIPF will report to each Regulator in accordance with the provisions of Schedule B to this MOU.

Any comments from the staff of the Regulators on any report, document or information provided by the CIPF will be sent to the Principal Regulator. The Principal Regulator will request that the CIPF respond to comments raised by the Regulators and will forward any response to the Regulators.

### 5.3.2 CIPF Actions in Respect of Member Firms

The CIPF will prepare and provide to the Applicable Regulators a report detailing any action taken with respect to a Member Firm. For Member Firm failures, the report will describe the circumstances of the failure, including a summary of the actions taken by the Member Firm, the Participating SRO and the CIPF and any committee or person acting on behalf of such parties. These reports will be delivered within 90 days of the action taken by the CIPF or Participating SRO or the liquidation of the Member Firm or at such other time as agreed to between the parties hereto.

### 5.4 Review and Approval of By-law

The CIPF will file with the Approving Regulators any proposed changes to the CIPF's By-law Number 1 for prior approval. The Approving Regulators will review and approve any proposed changes to the CIPF's By-law Number 1 according to the process set out in Schedule C to this MOU.

## **6. Miscellaneous Provisions**

### 6.1 Confidentiality

All notices, reports, documents and any other information provided pursuant to this MOU are being provided for regulatory purposes and will be supplied and maintained in confidence, except as required for regulatory purposes.

### 6.2 Authority

Nothing in this MOU is intended to limit the powers of any of the Regulators under applicable securities laws to take any measures authorized under such laws.

### 6.3 Legal Action Against the CIPF

Nothing in this MOU will be interpreted to prevent a Customer from taking legal action against the CIPF in a court of competent jurisdiction in Canada, nor will the CIPF contest the jurisdiction of such a court to consider a claim where the claimant has exhausted the CIPF's internal claim review process.

### 6.4 Effective Date

This MOU comes into effect on ●, 2008.

## **Schedule A**

### **Oversight Reviews**

- 1) Each Participating Regulator will provide to the Principal Regulator their report points on the results of the review;
- 2) Within 20 business days of receipt of all report points, the Principal Regulator will prepare a draft report combining the report points of the Participating Regulators and send it to the Participating Regulators for comment;
- 3) Any Participating Regulator that has comments on the draft report will send its comments to the Principal Regulator within 10 business days of receiving the draft report, with copies to the other Participating Regulators;
- 4) The Principal Regulator will consolidate the comments of the Participating Regulators and revise the draft report, as necessary, within 15 business days of receiving the comments;
- 5) The Principal Regulator will forward a copy of the revised draft report to the CIPF for it to confirm the factual accuracy of the draft report;
- 6) The CIPF will review the draft report for factual accuracy and respond with comments within 15 business days of receipt;
- 7) Within 15 business days of receiving the CIPF's comments, the Principal Regulator will take into account the CIPF's comments, revise the draft report as necessary and forward a copy of the draft report and the CIPF's comments to the Participating Regulators for comment;
- 8) Within 10 business days of receipt, the Participating Regulators will review the draft report and the CIPF's comments and respond with comments;
- 9) The Principal Regulator will consolidate these comments, revise the draft report, as necessary, then release the final report to the CIPF for formal response, within 15 business days of receiving the Participating Regulators' comments;
- 10) The CIPF will use its best efforts to respond to the report within 20 business days of receipt;
- 11) The Principal Regulator will review the CIPF's response, develop a follow-up plan and forward a copy of the follow-up plan and the CIPF's response to the Participating Regulators for comments, within 15 business days of receiving the CIPF's response;

- 12)The Participating Regulators will review the follow-up plan and respond with comments within 10 business days of receipt, with copies to the other Participating Regulators;
- 13)The Principal Regulator will consolidate these comments and revise the follow-up plan as necessary;
- 14)The Principal Regulator and the Participating Regulators will seek any necessary approvals of the follow-up plan ; and
- 15)The Principal Regulator will provide the final report, including the CIPF's response and the follow-up plan, to the staff of the Regulators, the CSA Chairs and the CIPF.



## **Schedule B**

### **Reporting to the CSA**

#### **1) Requested Information**

- a) A Regulator may, at any time, request any reports, documents, or information from the CIPF and the CIPF will comply with that request for information.

#### **2) Prior Notification**

- a) The CIPF will provide, to the CSA, at least 60 days prior notice before:
  - i) Implementing any changes to its Coverage Policies;
  - ii) Implementing any changes to its method of assessing Member Firms;
  - iii) Implementing any changes to the Industry Agreement; and
  - iv) Adding an SRO as a party to the Industry Agreement.
- b) In emergency situations, where, in the opinion of the CIPF, 60 days prior notice is considered unreasonable, the CIPF will inform the CSA with as much advance notice as possible in the circumstances. Such notice will include an explanation of why the 60-day period is considered to be unreasonable.

#### **3) Ad Hoc Reporting**

- a) The CIPF will immediately report to the Applicable Regulators any Reportable Conditions with respect to a Member Firm of which the CIPF has been notified;
- b) The CIPF will immediately report to the CSA where a Participating SRO has withdrawn or has been expelled from participation in the CIPF. The CIPF will include in its report the reasons for the SRO's withdrawal or expulsion.
- c) The CIPF will immediately report to the CSA any actual or potential material adverse change in the level of CIPF assets, together with the CIPF's plan to deal with the situation.
- d) The CIPF will report to the CSA any changes to its investment policies within 30 days of such changes.

#### 4) Annual Reporting

- a) The CIPF will file with the CSA its annual audited financial statements, together with the report of the auditor, within 90 days after the end of each fiscal year.
- b) The CIPF will provide the following information to the CSA, within 90 days after the end of each fiscal year:
  - i) Description of any changes in the composition of the CIPF's Board of Directors in the previous fiscal year, including the names and terms of any incoming directors, the names of any outgoing directors, and whether any incoming directors are public directors as defined in the CIPF's By-law Number 1;
  - ii) Description of any changes to the CIPF's by-laws;
  - iii) Any suggestions that the CIPF has made to any Participating SROs in the previous fiscal year regarding the Participating SROs' making new rules or amending existing rules, and the Participating SROs' response to those suggestions; and
  - iv) Where the CIPF has directed a Participating SRO to take certain actions about Member Firms that are in financial difficulty pursuant to the Industry Agreement, details about the CIPF's direction and comment on whether the CIPF is satisfied with the Participating SRO's response.
- c) The CIPF will provide a written report to CSA staff and meet with the CSA Chairs at least once a year to report on the CIPF's operations and activities, including but not limited to:
  - i) The Board of Directors' annual review of the adequacy of the level of assets in the Fund, assessment amounts, and assessment methodology;
  - ii) The CIPF resources, including whether the CIPF is fully staffed;
  - iii) Member Firm failures and any resulting Customer claims;
  - iv) Risk management issues, including how the CIPF evaluated risks, what risk management issues were identified and how the CIPF dealt with these issues;
  - v) The Board of Directors' assessment of the need for additional risk management tools; and
  - vi) The extent and results of any Member Firm reviews conducted pursuant to the Industry Agreement.

## **Schedule C**

### **Review and Approval of By-law Amendments**

In reviewing and approving changes to the CIPF's By-law Number 1, the Approving Regulators will use their best efforts to adhere to the following process:

- 1) The CIPF will file each proposed change to the CIPF's By-law Number 1 ("Amendment") with each Approving Regulator;
- 2) Upon receipt of an Amendment, staff of the Principal Regulator will immediately send confirmation of receipt of the Amendment to the CIPF, with copies to the other Approving Regulators;
- 3) If, in the opinion of the Approving Regulators, the Amendment raises public interest issues or concerns, the Approving Regulators may publish the Amendment for a 30-day comment period;
- 4) Within 20 business days of receiving the confirmation of receipt of the Amendment, staff of each of the Approving Regulators will provide significant comments to staff of the Principal Regulator in writing, with copies to the other Approving Regulators. If staff of the Principal Regulator does not receive any such comments within the 20-business-day period, the other Approving Regulators will be deemed to not have any comments;
- 5) Within 7 business days of the end of the 20-business-day period, staff of the Principal Regulator will consolidate all comments received and send a comment letter to the CIPF. In the event that comments received conflict, staff of the Approving Regulators will try to reach an agreement to deal with the conflict;
- 6) Within 14 business days of receipt of the comment letter, the CIPF will respond in writing to the Principal Regulator, with a copy to each of the other Approving Regulators;
- 7) Each of the other Approving Regulators will provide material comments to the Principal Regulator in writing within 10 business days of the CIPF's response, and the Principal Regulator will provide its comments to the other Approving Regulators within the same period; if the Principal Regulator does not receive any comments within the 10-business-day period, the other Approving Regulators will be deemed not to have any comments;
- 8) The CIPF and the Approving Regulators will discuss and attempt to resolve the concerns raised by any of the Approving Regulators within 20 business days of receiving comments from staff of the other Approving Regulators regarding the CIPF's response, but if the concerns are not resolved to the satisfaction of all

Approving Regulators, review of the Amendment will be escalated to be discussed among the Chairs or other senior executives of the Approving Regulators;

- 9) Staff of the Principal Regulator will prepare documentation for approval of the Amendment by the Principal Regulator within 14 business days of resolving comments under paragraph (8);
- 10) After an Amendment is approved by the Principal Regulator, staff of the Principal Regulator will promptly circulate the approval documentation to the other Approving Regulators;
- 11) Staff of the other Approving Regulators will seek the necessary approval within 20 business days of receipt of the documentation from the Principal Regulator, or such later time as is mutually agreed by staff of the Approving Regulators;
- 12) Staff of each Approving Regulators will inform staff of the Principal Regulator in writing of the decision concerning the Amendment immediately following the decision;
- 13) Staff of the Principal Regulator will communicate in writing the approval of an Amendment to the CIPF and to all Regulators promptly upon receipt of notification from all of the other Approving Regulators of their decision.