

Authored and prepared by egX

Annotated Recognition Order

egX Canada Inc.

Section 24 of the *Securities Act*, RSBC 1996, c. 418

egX Canada Inc. (egX), a subsidiary of Global Financial Group Inc. (GFG), has applied for recognition as an exchange in British Columbia under section 24 of the Act.

egX represents that it will operate an exchange for real estate related securities, will maintain its head office in British Columbia, and will:

- (a) provide listing and corporate finance services;
- (b) perform listed issuer regulation functions;
- (c) provide trading services to its participants; and
- (d) perform market regulation functions.

In addition to being required to comply with the requirements of the Act, National Instrument 21-101 *Marketplace Operations*, and National Instrument 23-101 *Trading Rules*, egX has agreed to comply with Schedules A and B to this order.

Based on the application and the representations, acknowledgements, and undertakings made by egX and GFG, the Commission is satisfied that recognizing egX will not be prejudicial to the public interest.

The Commission recognizes egX as an exchange under section 24 of the Act so long as egX

- (a) before operating as an exchange, complies with Schedule A, and
- (b) complies with Schedule B, the Act, NI 21-101 and NI 23-101.

This recognition will continue until the Commission, after giving egX an opportunity to be heard, revokes or varies it.

[date]

Douglas M. Hyndman
Chair

Schedule A – Pre-operating conditions

egX's recognition is conditional on **egX**, before it begins operating as an exchange:

- (a) confirming to the Commission that its connectivity with Market Regulation Services Inc. is complete and it has entered into an agreement with RS for market regulation services;
- (b) confirming to the Commission that its connectivity with CDS is complete and that it has entered into an agreement with CDS for clearing and settlement services;
- (c) filing with the Commission an audit review report of **egX's** trading systems;
- (d) filing with the Commission an external and internal vulnerability test report on **egX's** non-trading systems; and
- (e) confirming to the Commission that all steps necessary to begin exchange operations have been taken, as set out in the business plan **egX** filed with its application for recognition.

Schedule B – Conditions of Recognition

Public interest

1. **egX must regulate listed issuers and its market to serve the public interest in protecting investors and market integrity. It must articulate and ensure it meets a clear public interest mandate for its regulatory functions.**

egX response

egX and its parent company, GFG, have articulated **egX**'s public interest function in the following documents:

- the **egX** and GFG corporate governance policies,
- other internal policies and procedures documents,
- the **egX** business plan, and
- the **egX** Trading Rules and Listings Manual.

The parent company, GFG, is a public company and its regulatory filings will also articulate the public interest mandate of **egX**.

egX will achieve its public interest mandate by:

(a) Enhancing regulatory protection for real estate investors

As a recognized exchange, **egX** will operate in a highly regulated environment. **egX**'s regulatory structure, policies and practices have been designed to monitor and enforce compliance with regulatory requirements and promote coordination with securities regulatory authorities and other self-regulatory organizations (SROs). By setting new regulatory standards for real estate investments **egX** will help divert investors from unregulated, illiquid and misleading real estate related schemes.

Investor protection will be supported by market transparency, high disclosure standards and investor education:

- Initial public offerings of securities listed and traded on **egX** will be issued under a prospectus, receipted by the applicable securities commission and sold through registered representatives.

- **egX** will oversee the issuance and trading of listed securities in cooperation with the British Columbia Securities Commission (the “Commission”) and other regulatory agencies.
- All **egX** participants must be members of and subject to Investment Dealers Association of Canada (IDA) oversight.
- The secondary market for **egX** listed securities will be transparent and will be monitored and regulated.
- Issuers will be required to provide continuous disclosure to investors and the public.
- Issuer disclosure and significant transactions will be monitored by **egX**.
- **egX**’s website will provide an education component. It will include analytical tools and quality information so that investors can make informed decisions.

(b) Considering the Public Interest

egX will consider the public interest in all its regulatory, business and access decisions, operating activities, and through its rules, policies and procedures by ensuring that:

- the interests of investors and listed issuers are balanced with the need to preserve market integrity, public protection, and the reputation and credibility of **egX** and the Canadian securities markets,
- **egX** contributes to or does not unnecessarily stifle competition,
- there is no unfair discrimination against business, investors, or market participants, and
- there is a balance between investor protection and the efficiency of the capital markets.

(c) Evaluating and documenting

egX will evaluate and document its effectiveness in meeting its public interest mandate through an ongoing internal assessment process that considers the effectiveness of its rules, policies, procedures, and systems for monitoring and enforcement, making decisions and referrals.

egX will use the results of this ongoing analysis to develop communication and education programs for its staff, participants and issuers.

(d) Establishing a corporate governance system

egX will establish a corporate governance system that:

- ensures **egX**'s decision-making and operation processes pay proper regard to, and protect the public interest. The corporate governance system and how it will operate in the public interest is discussed in the "Corporate Governance" section below.
- identifies conflicts of interest and the means to manage such conflicts of interest to ensure it will operate in the public interest, as discussed in the "Conflicts of interest" section below.
- continuously evaluates and monitors to ensure that it is operating in the public interest.

Corporate governance

2. egX's corporate governance system must ensure effective oversight of egX's management and regulatory functions.

egX response

egX has put in place a corporate governance system to ensure effective oversight of **egX**'s management and **egX**'s regulatory function. The overall aim of this system is to ensure that **egX**'s decision-making and operation processes pay proper regard to, and protect the public interest. **egX** will continually monitor and evaluate its corporate governance system for effective oversight of **egX**'s management and **egX**'s regulatory function. On an annual basis, **egX** will also conduct a formal review of the effectiveness of such corporate governance system.

(a) egX board of directors

egX is a private company federally incorporated under the *Canada Business Corporations Act*. **egX** is a wholly owned subsidiary of GFG. The by-laws of **egX** provide that the number of directors on the board of directors of **egX** (**egX** Board) must be not less than two and not more than seven. GFG, as the sole securityholder of **egX**, elects directors to the **egX** Board.

egX will ensure that the **egX** Board is made up of at least 50% independent directors and that it represents diversity of its participants (i.e., issuer size, geographic locations, types of business and ownership structures). The **egX**

Board is currently comprised of three directors, two of whom are common directors with GFG, and one director who is independent. The third director on the **egX** Board is the President of **egX**.

egX will add an additional two directors to the **egX** Board prior to **egX** commencing operations. These individuals will be independent, financially literate, and will have real estate or exchange related experience, or a combination of this experience. The GFG Governance Committee will review and make recommendations to the **egX** Board respecting candidates to fill any board vacancies.

Even though **egX** is a private company, when assessing current or future directors of the **egX** Board, **egX** will use the meaning of independence set out in Multilateral Instrument 52-110 *Audit Committees*.

(b) Regulatory Oversight Committee

Prior to commencing listing and trading operations, **egX** will establish a regulatory oversight committee (ROC). This committee will oversee regulatory functions for **egX**. The ROC will be comprised of **egX** directors and public members appointed by the **egX** Board. At least 50% of the members of the ROC will be independent. The ROC will oversee the performance of regulatory functions, including compliance with the recognition order. The ROC will also ensure that adequate resources are allocated to regulatory functions, and review regulatory policy procedures. The ROC will report directly to the **egX** Board.

(c) Advisory Committees

egX intends to establish one or more standing advisory committees. Such advisory committees will act as consultative bodies to **egX** in the areas of listings and real estate marketing. The advisory committee(s) will be comprised of key industry individuals representing a diversity of participants (i.e., issuer size, geographic locations, and types of business and ownership structures).

3. egX must ensure that each director, officer, and significant securityholder¹ is a fit and proper person² for that role.

egX response

egX has established criteria and adopted policies and procedures to ensure that each director, officer and significant securityholder is a fit and proper person for that role.

Each of the current directors on the **egX** Board has been scrutinized and future nominees will be scrutinized to ensure he or she is “fit and proper”, which includes that the person:

- demonstrates integrity and high ethical standards,
- has relevant career experience and expertise,
- understands his or her fiduciary duty,
- is financially literate,
- has listening, communication and influencing skills so they can actively participate in board discussions and debate, and
- is able to devote sufficient time to responsibilities of the **egX** Board.

The performance of each director of the **egX** Board will be assessed annually. Such assessment will include whether each director continues to be a fit and proper person for that role.

The **egX** Board has and will continue to appoint a competent senior management team to run the day-to-day operations of the exchange, and to supervise the management of the business and affairs of **egX** by that team. In addition, the ROC will review and make recommendations to the **egX** Board respecting appointing additional key regulatory personnel. The ROC will also co-ordinate with the **egX** President to review annually the performance and remuneration of key regulatory personnel (i.e., President, Vice-President, Marketplace Operations and General Counsel).

¹ A significant security holder holds 10% or more beneficial ownership or voting control

² A fit and proper person is (a) appropriately qualified for that role by education and experience, and (b) of good character and integrity.

The **egX** President has and will continue to appoint all officers of **egX** that are not otherwise considered by the **egX** Board and the ROC. All officers of **egX** are subject to pre-employment screening which includes verifying academic qualifications, employment history and a review of the information supplied in support of the individual's application (including references). As the securities of GFG are listed for trading on the TSX Venture Exchange, officers and insiders of **egX** also file personal information forms with the TSX Venture Exchange. The **egX** President will review annually the performance and remuneration of all officers that are not otherwise considered by the **egX** Board and the ROC.

egX has also provided to the Commission, for its review, personal information forms³ for each director, officer, and significant securityholder.

Conflicts of interest

4. egX must effectively identify and manage conflicts of interest.

egX response

egX will have systems, policies and procedures to effectively identify and manage conflicts of interest. **egX** has identified three key areas where potential conflicts of interest may occur and has developed the means to manage such conflicts.

(a) Competing commercial interests and public interest obligations

egX is a for-profit exchange which means that it has both commercial interest and public interest obligations. **egX** is aware of the potential conflicts of interest between these two obligations. The previous sections on public interest and corporate governance set out the systems, policies and procedures that **egX** will use to manage any potential conflicts of commercial interest and the public interest.

(b) Directors, officers and employees deriving personal benefit

egX is aware of the potential conflicts of interest for individuals employed by or associated with the exchange. GFG will adopt a Code of Conduct and Ethics (Code) which will apply to all directors, officers and employees of GFG and its subsidiaries, including **egX**. The Code:

- sets out a general requirement that individuals must avoid an interest or situation where their conduct allows them, or someone close to them, to benefit personally as a result of their position, and

³ Form 2A, TSX-Venture Exchange forms.

- identifies potential conflicts of interest and sets out acceptable responses and guidance for managing such conflicts.

The Code also refers to and incorporates a Trading Policy. The Trading Policy, among other things, includes general prohibitions on the trading of securities where an issuer is in the process of listing its securities or has its securities listed on **egX**. This policy prohibits trading in securities identified on a restricted list kept by the President and the Vice-President, Marketplace Operations of **egX**. The Trading Policy also has a process for monitoring the trading activity of GFG and **egX** employees, and contains additional restrictions for employees who monitor the **egX** marketplace. All employees must disclose investment details relating to securities listed on **egX** for themselves and family members. As well, all employees must provide their brokers with a copy of the Trading Policy, and have the brokers send copies of trade confirmations and monthly statements relating to **egX** listed securities to the Vice-President, Marketplace Operations of **egX**. The President and Vice-President, Market Operations of **egX** monitor this internal system.

The office of the General Counsel works with the directors and management to ensure that everyone understands and complies with the Code. Directors, officers and employees of GFG and its subsidiaries are required to sign an initial commitment to the Code and then an annual re-commitment to the Code.

(c) egX as a subsidiary of GFG

egX, as a wholly-owned subsidiary of GFG, is aware of potential conflicts of interest between the obligations of **egX** to operate an exchange and of GFG to operate a company whose shares are publicly traded. **egX** and GFG have developed systems, policies and procedures to ensure that **egX** exists and operates as independently of GFG, as possible. Specific means used to achieve this outcome include the Code of Conduct and Ethics, internal policies including the Trading Policy, a majority independent **egX** Board, the ROC and advisory committees to the **egX** Board. The previous sections on public interest and corporate governance discuss these items in detail. As well, GFG will delegate to **egX** responsibility for **egX**'s operations, including:

- budgets and financial operations,
- policy development,
- technology and systems, including trading, compliance, regulatory oversight and website,

- internal controls,
- document management, and
- human resources.

Access

5. **egX must have fair access criteria for its trading and listing services, and apply them fairly and transparently.**

egX response

egX requirements relating to access to its trading services, listing services and the application of fees are applied fairly and transparently as outlined below.

(a) Trading Services

egX has established rules, found in the **egX** Trading Rules, for its marketplace participants that must be complied with for access to, and continued use of its trading services. The **egX** Trading Rules have been filed with the Commission and are available on the **egX** website – www.investment.com.

The **egX** Trading Rules set out admission requirements for all applicants seeking admission as an **egX** Canada participant and trading permission as a designated trader.

All **egX** participants must be members of and subject to Investment Dealers Association of Canada (IDA) oversight. **egX** requires all individuals applying for access to trade be qualified as to experience, formal education and knowledge of the **egX** Trading Rules, as well as the trading rules established by the applicable SRO.

If **egX** is not satisfied that an applicant seeking admission as an **egX** participant or designated trader complies with the requirements set out in the **egX** Trading Rules, **egX** will give notice to the applicant rejecting the application and giving reasons why the application is rejected.

The **egX** Trading Rules also contain processes for the review of any decision made by **egX** which affects an **egX** participant or individual. Rejected applicants can request a review of the **egX** decision.

The **egX** Trading Rules apply equally to all **egX** participants. **egX** requirements and processes relating to access to its trading facilities are fair, transparent and reasonable and include requirements in respect of notice, an opportunity to be heard or make representations, the keeping of records, the giving of reasons and the provisions for reviews.

egX will document and maintain internal procedures for the review of applications for participant admission and **egX** trading system access.

The decision making process and documentation will be standardized and will include descriptions of how access criteria were applied, how the public interest was considered, as well as the details of any resulting reviews or conditions imposed. If **egX** is not satisfied that an applicant complies with the admission requirements, **egX** will give notice to the applicant rejecting the application and giving reasons why the application was rejected. Applicants who want to contest a decision will be given an opportunity to be heard.

Market Regulation Services Inc. (RS) is responsible for the administration and enforcement of the Universal Market Integrity Rules (UMIR). Market activity will be monitored by **egX** staff and RS to ensure compliance with UMIR and the **egX** Trading Rules.

The **egX** Trading Rules and UMIR prohibit unreasonable discrimination among issuers or participants, or any burden on competition that is not reasonably necessary or appropriate.

egX will ensure that:

- its requirements relating to access to the **egX** system, the imposition of limitations or conditions on access and denial of access are fair and reasonable,
- parties are given an opportunity to be heard or make representations, and
- **egX** keeps a record, gives reasons and provides for the review of its decisions.

(b) Listings Services

egX has established listing policies, found in the **egX** Listings Manual, to guide applicants seeking a listing, and to regulate listed issuers. The **egX** Listings Manual has been filed with the Commission and is available on the **egX** website – www.investment.com.

The **egX** Listings Manual and the listing agreement apply equally to all listings. **egX** requirements relating to issuer access, including minimum listing requirements and maintenance requirements, are included in the **egX** listings policies. Policies relating to issuer access are fair, transparent and reasonable and will be fully documented. These policies include requirements in respect of notice, an opportunity to be heard or make representations, the keeping of records, the giving of reasons and the provisions for reviews.

egX will ensure that:

- its requirements relating to listing and trading, the imposition of trading interruptions, and director or officer acceptability are fair and reasonable,
- parties are given an opportunity to be heard or make representations, and
- **egX** keeps a record, gives reasons and provides for appeals of its decisions.

(c) Fee Setting

egX's process for setting participant and issuer fees will be fair, transparent and appropriate. Any and all fees imposed by **egX** on its participants and issuers will be equitably allocated, will not have the effect of creating barriers to access and are competitive.

egX will publish its fee schedule and any proposed changes to its fees, including justification for those changes. **egX** will ask for stakeholder comment and will take comments into consideration when setting its fee schedule.

(i) Issuer Fees

egX has developed its fee schedule to be competitive with the fees and commissions charged for other types of real estate transactions. The fees for listing and maintaining a listing with **egX** are fair and will provide good value for real estate issuers because of the specialized real estate listing services that **egX** offers.

This competitive fee structure will not create barriers to access and will provide **egX** with its main source of operating revenue to meet its responsibilities.

The **egX** fee schedule is based on a simple percentage calculation of the value of the tangible assets listed. There will be no additional charges for

corporate transactions except when additional securities are issued. A small annual sustaining fee will also be assessed. This fee schedule will be clearly communicated and the process for making any changes to fees will be transparent. Any significant amendments to the schedule will be published for comment and is subject to regulatory approval.

(ii) Participant and Market Fees

egX does not intend to charge trading fees. There will be a nominal participant application fee and a small monthly access fee. These fees are less than those currently charged by other exchanges and do not create any barriers to entry for participants. **egX** will rely on issuer fees to provide the revenue required for it to meet its responsibilities.

egX may enter into a data distribution agreement with a third party. Any data fees will be determined at that time and will be competitive.

RS will charge **egX** market regulation fees based on the RS fee model. **egX** will recover these charges from its marketplace participants.

These fees will be set under the regulation services agreement with RS.

Financial viability and reporting

6. egX must have sufficient financial resources to perform its functions and meet its responsibilities.

egX response

On an annual basis, **egX** will prepare an annual budget outlining operating costs and capital expenditure requirements for each month. This budget will be reviewed by the executive officers of both **egX** and GFG. The budget will be presented to both the GFG Board and the **egX** Board for review and approval.

This budget will be used as a guideline to determine operating costs and capital expenditure requirements in order to determine financial viability.

To meet the criteria of having sufficient financial resources, **egX** will maintain the following:

- (a) liquid financial assets amounting to at least six months operating costs and capital expenditure requirements, and
- (b) working capital of at least this amount,

where:

- (i) liquid financial assets are defined as cash and near cash assets, and
- (ii) working capital is defined as current assets less current liabilities.

egX will subordinate any related party obligations, other than those in the ordinary course of business, to other obligations. **egX** will also exclude any subordinated related party obligations in the calculations for its sufficient financial resources.

egX will follow Canadian generally accepted accounting principles (GAAP) requirements for measurement and disclosure of related party transactions.

7. egX must:

- (a) report quarterly to the Commission what capital is available and why that capital is sufficient to ensure egX can perform its functions and meet its responsibilities for the next six months,
- (b) report immediately to the Commission when it does not have sufficient capital for the next six months, setting out the reasons for the deficiency and the steps egX will take to rectify the deficiency, and
- (c) file unaudited quarterly financial statements within 60 days of each quarter's end prepared according to generally accepted accounting principles⁴.

egX response

On a quarterly basis, **egX** will provide to the Commission the report of current liquid financial assets and working capital against future operating costs and capital expenditure requirements in the budget for each month of the next six months. This report will also discuss the appropriateness of the calculations and if alternative calculations should be considered.

If at any time following the commencement of listing and trading operations **egX** does not have sufficient working capital to meet the capital expenditures for the subsequent six months, the President of **egX** will immediately deliver a letter advising the Commission or its staff of the reason for the deficiency and the steps being taken to rectify the problem. GFG, as a public company, has reporting

⁴ egX must also file annual audited financial statements (section 5.6, NI 21-101).

obligations under NI51-102. For example, GFG would be required to file a Material Change Report if it experiences a working capital deficiency.

As the parent of **egX**, GFG will file unaudited quarterly financial statements within 60 days of each quarter's end. Once **egX** can operate without financial assistance from the parent GFG, **egX** will file unaudited quarterly financial statements.

Compliance and control systems

8. egX must maintain an effective system for compliance with the securities legislation and this recognition order, as well as its own internal policies and procedures.

egX response

egX will maintain an effective system for compliance with the securities legislation, the terms of this recognition order, and its own internal policies and procedures. **egX** will achieve this as follows:

- Generally, **egX** will establish written policies and procedures where appropriate. **egX** will also have written policies and procedures as described in requirements on “Public interest”, “Corporate governance” and “Conflicts of interest”.
- **egX** will engage “fit and proper” regulatory and compliance personnel at **egX** who have the expertise and experience necessary to operate an effective system for compliance. The regulatory and compliance personnel will monitor applicable regulator websites and other sources, attend information and education sessions to stay current on applicable regulatory changes and will be responsible for communicating changes to **egX** management and staff.
- **egX** legal and other professional staff will monitor for compliance with the Code as well as internal policies and procedures.
- **egX** will establish documented procedures to monitor for compliance with the terms of this recognition order and will regularly document its review.
- **egX** will have a Regulatory Oversight Committee (discussed in detail in “Corporate governance”) which committee will have a mandate to oversee the performance of regulatory functions, including compliance with the recognition order.

- The ROC will engage internal audit personnel to audit regulatory compliance. The internal audit report with respect to regulatory issues will be presented to the ROC and the **egX** board.

9. egX must maintain controls to manage the risks associated with its business, including an annual review of its contingency and business continuity plans.

egX response

egX's system of controls to manage its business risks includes:

(a) Internal control and audit function

To ensure its systems for compliance and internal controls designed to manage business risk are effective, **egX** will establish an internal audit function and will have written policies and procedures to ensure compliance and internal controls are effective.

(b) Systems to track, monitor, and record order and trade activity

The **egX** trading system will be built using OMX's X-stream trading platform which exceeds industry minimum standards for capacity systems integrity and security. **egX** will ensure a systems control audit will be conducted annually.

The **egX** trading system will have components to track, monitor and record order and trade activity. Historical databases of order and trading information, and internal action audit trail information will be retained and easily accessible.

(c) Systems to track, monitor, and record listing and other regulatory and business activities

egX will have adequate policies and procedures to ensure that its office management systems, listing application processing and compliance, work and document management systems have the capacity, integrity, and security to meet **egX**'s business needs and regulatory responsibilities.

(d) System Capability / Scalability

For each of its systems that support order entry, order routing, execution, data feeds, trade reporting, trade comparison and system-enforced rules, **egX** will maintain a level of capacity that allows it to properly carry on its business and has in place processes to ensure the integrity of each system. This includes maintaining reasonable back-up, contingency and business continuity plans, disaster recovery plans and internal controls.

(e) System Integrity and Security

egX will obtain an independent report of the X-stream platform and network to confirm the adequacy of systems controls. **egX** will ensure adequate procedures are in place to:

- handle system change requests,
- ensure the competence, integrity and authority of system users, and
- ensure that users of the trading system are adequately supervised.

egX will perform regular IT security tests to ensure that its internal systems are secure.

Outsourcing

10. egX must obtain the Commission's consent before entering into an outsourcing arrangement.

egX response

egX will obtain the Commission's consent before any outsourcing arrangement impacting **egX**'s operations is made.

Clearing and settlement

11. egX must make appropriate arrangements for clearing and settlement through a recognized clearing agency.

egX response

Clearing and settlement for **egX** will be provided by the Canadian Depository for Securities Limited, and its subsidiary, CDS Clearing and Depository Services Inc.

Regulation

12. egX must regulate its marketplace effectively.

egX response

egX's regulatory structure, rules, policies and practices have been designed to monitor and enforce compliance with regulatory requirements and promote coordination with securities regulatory authorities and other SROs.

I. Market Regulation

(a) Regulatory instruments governing the conduct of market participants

egX and its regulation services provider, RS, maintain rules, policies and other similar instruments that govern the trading conduct by market participants.

egX's Board will formally adopt UMIR.

egX Trading Rules are designed to:

- ensure compliance of **egX** trading system rules,
- compliment UMIR and National Instrument 23-101 *Trading Rules*,
- prevent fraudulent and manipulative acts and practices,
- promote just and equitable principles of trade,
- foster co-operation and co-ordination with persons or companies engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in, the products traded on **egX**,
- provide for appropriate discipline,
- ensure a fair and orderly market,
- ensure that **egX** business is conducted in a manner so as to afford protection to investors, and
- provide for appropriate dispute procedures.

(b) Systems to monitor the conduct of egX market participants and enforce compliance with egX regulatory instruments

The **egX** trading system is designed to ensure all trading of listed securities is conducted in accordance with the **egX** Trading Rules and UMIR.

egX will contract with RS, or its successor, under a regulation services agreement for market surveillance, trade desk reviews, investigation services and enforcement of UMIR as it is applicable to **egX**.

egX will ensure that RS maintains appropriate systems, resources and procedures to perform market surveillance, trade desk review, and investigation and enforcement services. **egX** will regularly assess the performance of RS and report to the **egX** Board.

egX will liaise with RS in conducting market surveillance, trading halts and delays.

egX marketplace operations staff will monitor trading through the X-stream surveillance tool which will generate order and trade volume and alerts and price alerts, based on specific parameters. The handling of these alerts will be documented electronically. This will ensure a searchable record is maintained for audit purposes.

egX marketplace operations staff will coordinate the review and monitoring of listed issuer news releases with trade monitoring activities to ensure compliance with timely disclosure policies.

As well, **egX** will be responsible for reviewing all applications for access to its trading system, and controlling market access.

All **egX** participants are required to be members of the IDA. **egX** intends to rely on the IDA to monitor and enforce acceptable sales practices.

(c) Policies and procedures relating to decisions about egX market participants

Participants and participant applicants will be given an opportunity to request a review of any **egX** decision that affects them. **egX** will keep a record of the proceedings and give reasons for its decisions.

egX will maintain a procedures manual that documents policies and procedures for conducting reviews of decisions.

egX will ensure, through cooperation with RS, that any person subject to its regulation is appropriately disciplined for breaches of UMIR and **egX** Trading Rules. **egX** will further ensure that RS's policies and procedures for holding hearings to determine whether a person has contravened **egX**'s regulatory instruments conform to established principles of administrative law.

If **egX** is not satisfied that an applicant seeking admission as an **egX** participant complies with the admission requirements set out in the **egX** Trading Rules, **egX** will give notice to the applicant rejecting the application and giving reasons why the application is rejected.

The **egX** Trading Rules contain processes for the review of any decision made by **egX** which affects an **egX** participant or individual. Rejected applicants can request a review of the **egX** decision.

egX will maintain all records of all participant and designated trader applications that have been granted or denied, as well as the details of any resulting reviews or conditions imposed.

II. Issuer Regulation

(a) Listings

egX has established listings policies and a listings agreement to regulate listed issuers. All policies and forms relating to issuers and issuer regulation can be found in the **egX** Listings Manual, and are available on the **egX** website – www.investment.com.

All applicants submitting an application for an initial listing must meet the minimum listing requirements as set out in the **egX** Listings Manual. As well, all securities listed and traded on **egX** must be issued under a prospectus, or other disclosure document (pursuant to a prospectus exemption) as directed by **egX**.

Once an issuer has its securities listed on **egX**, the listed issuer must maintain minimum standards to continue to qualify for the listing of its securities on **egX** as outlined by the policies in the **egX** Listings Manual. These minimum standards relate to the listed issuer's financial situation, business activity, market capitalization, securityholder distribution and regulatory compliance. As well, listed issuers will be subject to continuous disclosure and filing requirements and will be required to comply with **egX** listings policies and the listing agreement.

For an applicant to be accepted for listing its securities on **egX**, all potential issuers must complete and submit to **egX** a listing agreement prior to listing. This listing agreement gives **egX** sufficient authority over its listed issuers, including the ability to:

- halt, suspend or delist an issuer's securities,
- object to the appointment or involvement of unacceptable directors, officers, employees and contractors, and

- require correcting or clarifying disclosure and otherwise comply with all **egX** requirements.

The listings policies also contain procedures for listed issuers to request policy waivers as well as reviews of **egX** decisions.

(b) Systems to monitor the conduct of egX listed issuers and enforce compliance with egX regulatory instruments

egX will maintain a compliance department responsible for:

- ensuring background checks are completed for new director and officer appointments,
- monitoring disclosure and investor relations activities of its listed issuers, and
- conducting reviews of its listed issuers.

Any breaches of the **egX** listing agreement or its listings policies will result in appropriate regulatory action. Any possible violations of securities legislation will be referred to the Commission and other securities regulators as appropriate.

The **egX** compliance department will be managed independently from the Listings Department. Access to compliance systems and databases will be controlled to ensure data integrity.

egX compliance staff will carry out appropriate review procedures to monitor and enforce compliance with its listings policies and listings agreement. Compliance systems and databases will include searchable case management tools.

Compliance review procedures will be documented in an internal procedures manual. The compliance review procedures will include electronic checklists to document reviews, as well as the decision making criteria and process. The case management system will also include internal controls such as sequential numbering, edit controls and user controls to ensure the integrity of data and file opening, review and closing procedures.

(c) Policies and procedures relating to decisions about applicants for listing, listed issuers, and persons associated with those issuers

The **egX** Listings Manual outlines the process for the review of any decision made by **egX** which affects a listed issuer or individual. Listed issuers and individuals affected by an **egX** decision can request a review of that decision.

egX will maintain all records of all listing applications that have been granted or denied, as well as the details of any resulting reviews or conditions imposed upon an applicant or listed issuer.

If **egX** is not satisfied that an applicant seeking admission as a listed issuer complies with the admission requirements set out in the **egX** Listings Manual, **egX** will give notice to the applicant rejecting the application and giving reasons why the application is rejected.

The **egX** Listings Manual contains criteria and processes for taking regulatory action against a listed issuer, such as trading halts, trading suspensions, the delisting of listed securities, decisions on unacceptable listed issuer transactions and decisions made of individuals themselves.

egX will maintain internal procedure manuals, checklists, files and records of all reviews and decisions.

III. Enforcement

egX will have policies and procedures for identifying breaches of its trading rules and issuer polices, and for determining appropriate enforcement action.

(a) egX Participants

egX will ensure, through cooperation with RS, that trading activity on the **egX** marketplace is monitored and that there are documented, effective surveillance and analytical tools and procedures to detect possible breaches of **egX** rules and UMIR.

egX will further ensure that RS has effective investigative and enforcement procedures including file documentation standards and documented precedents so that any person subject to its regulation is fairly and appropriately disciplined for violations of UMIR and the **egX** Trading Rules.

egX will ensure that:

- it maintains all required records, and audit trail information on all orders entered and trades executed on the exchange,
- its requirements relating to access to **egX**, the imposition of limitations or conditions on access and denial of access are fair and reasonable,
- parties are given an opportunity to be heard or make representations, and
- it keeps a record of breaches of the **egX** Trading Rules and UMIR, any decisions it makes arising from those breaches, and gives reasons and provides for appeals of those decisions.

(b) egX Listed Issuers

egX will maintain a compliance department responsible for reviews of listed issuer disclosure and other issuer activities. The compliance department will follow established policies and procedures for documenting reviews, including file opening and closing requirements, use of checklists, documentation requirements and file supervision.

Breaches of the **egX** listing agreement or its listings policies will result in appropriate action as provided for in the listing agreement and Listings Policies such as trading interruptions, and director/officer acceptability decisions.

Any possible violations of securities legislation will be referred to the Commission and other securities regulators as appropriate.

egX will also maintain records of breaches or its listings policies, and referrals of possible breaches of securities legislation.

IV. Administration

Prior to launch, **egX** will implement the following:

- *Hiring policies.* Hiring policies will be implemented to ensure that its staffing levels are sufficient to meet its regulatory responsibilities. The organization of **egX** includes an appropriate structure with operational, systems, legal, financial and regulatory staff, which are experienced and

knowledgeable in developing rules and policies, and overseeing and regulating listed issuers and participant market activity.

- *Human resources.* A Human Resources department, which will maintain policies and procedures to ensure its staff has the knowledge, skills and experience necessary to operate its business and to comply with all regulatory requirements including the recognition order.
- *Regulatory oversight.* **egX** will have an effective system of oversight to ensure that its obligations under regulatory requirements, including the recognition order, are met through any service provider providing regulatory services or other services which will have a significant impact on its operations. **egX**'s two main service providers are RS which will supply market surveillance, investigations and enforcement services and OMX which will develop, maintain and operate the **egX** trading system.
- *System integrity.* All **egX** systems, including its trading system and internal systems such as its issuer filing system, document management and website will meet industry standards for capacity, systems integrity, and security.
- *Information systems.* **egX**'s information systems will ensure effective and appropriate information sharing and communication within the organization. All regulatory information will be maintained electronically, will be searchable and will include controls over access and editing.

Regulatory instrument review process

13. egX must follow the regulatory instrument review process established by the Commission from time to time.

egX response

egX has established trading rules for marketplace participants, and listings policies to guide applicants seeking a listing and to regulate listed issuers. The **egX** Trading Rules and the **egX** Listings Manual have been filed with the Commission and are available **egX** website – www.investment.com. Any substantive changes to the **egX** Trading Rules and the **egX** Listings Manual will be submitted to the Commission for approval and published for comment.

egX will follow the Commission's regulatory instrument review protocol.

egX will amend its listings policies and forms, as required to:

- maintain market integrity,
- reflect new types of securities to be listed, and
- reflect changes in applicable securities laws, corporate finance practices and as otherwise required by the Commission.

Accountability

14. At least quarterly, egX must report to the Commission all significant issuer non-compliance, with information acceptable to the Commission about the issuers and other persons involved, the nature of the deficiencies, and the action taken or planned to deal with the issues.

egX response

egX will meet this requirement.

15. At least quarterly, egX must, directly or through RS, report to the Commission all significant market non-compliance, with information acceptable to the Commission about the participants or other persons involved, the nature of the deficiencies, and the action taken or planned to deal with the issues.

egX response

egX will meet this requirement.

16. At least quarterly, egX must, directly or through RS, report to the Commission all significant exemptions from, or waivers of, its requirements, including information about the issuers or participants involved, the nature of the waivers or exemptions, and the reasons for granting them.

egX response

egX will meet this requirement.

17. At least annually, egX must assess RS's performance and report to egX's board of directors with any recommendations for improvements. egX must provide a copy of the report to the Commission and advise what actions it proposes to take as a result.

egX response

egX will meet this requirement.

18. Annually, egX must provide a self-assessment to the Commission, including reporting against this recognition order and other securities regulation requirements.

egX response

egX will meet this requirement.

19. Annually, egX must provide to the Commission, for its approval, a current list of regulatory services provided by RS and services carried out directly by egX and any proposed amendments to it.

egX response

egX will meet this requirement.

20. Annually, egX must:

- (a) review and report on each technology system's and each data centre's computer operation's vulnerability to internal and external threats; and
- (b) report on its review of its contingency and business continuity plans under paragraph 9.

egX response

egX will meet this requirement.

21. egX must promptly report to the Commission any possible significant violations of securities legislation.

egX response

egX will meet this requirement.

22. egX must promptly notify the Commission of any material systems failures and changes.

egX response

egX will meet this requirement.

23. egX must comply with any additional accountability requirements the Commission sets from time to time.

egX response

egX will meet this requirement.

Information sharing and regulatory cooperation

24. To assist other regulatory authorities in regulatory matters, egX must share information and cooperate with

- (a) the Commission and other Canadian securities regulatory authorities,
- (b) recognized exchanges,
- (c) recognized regulation services providers,
- (d) recognized self-regulatory organizations,
- (e) recognized clearing agencies, and
- (f) other regulatory authorities responsible for supervising or regulating securities firms or financial institutions,

subject to privacy or other laws about the collection, use, and disclosure of personal and business information.

egX response

egX will meet this requirement.