

ORDER NUMBER 77

IN THE MATTER OF  
*THE SECURITIES ACT, R.S.N.L. 1990, CHAPTER S-13*  
AS AMENDED (the "*Act*")

AND

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA  
("IIROC")

ORDER  
(Section 144.(1) of the *Act*)

**Background**

1. IIROC has applied ("the Application") to the Superintendent of Securities (the "Superintendent") for an order pursuant to section 144.(1) of the *Act* exempting IIROC from the requirements of Section 9 of Appendix A ("Section 9") of the Superintendent's Order dated May 30, 2008, effective June 1, 2008, as varied and restated by an Order of the Superintendent dated May 31, 2010, recognizing IIROC as a self-regulatory organization ("SRO") pursuant to section 25 of the *Act*, in connection with the proposed distribution by IIROC of funds (including interest earned on those funds, the "Settlement Funds") paid to it by three member firms (the "Settling Firms") under settlement agreements accepted by IIROC hearing panels on December 21, 2009 (the "Settlement Agreements") that resolved proposed proceedings related to the sale of third-party asset-backed commercial paper ("ABCP") by the Settling Firms to clients of the Settling Firms who purchased ABCP from or through the Settling Firms in the circumstances described in the Settlement Agreements;
2. IIROC has been recognized as an SRO under the *Act* and under similar legislation in all other provinces of Canada;
3. On December 21, 2009, the Autorité des marchés financiers ("AMF"), the Ontario Securities Commission (the "OSC") and IIROC announced that they had reached settlements that resulted from investigations into the Canadian ABCP market providing for the payment of administrative penalties and investigation costs;
4. The Settling Firms were Scotia Capital Inc. ("Scotia"), Canaccord Financial Ltd. (now Canaccord Genuity Corp.) ("Canaccord") and Credential Securities Inc. ("Credential");
5. Under the Settlement Agreements, Scotia paid IIROC \$28,950,000, Canaccord paid \$3,100,000 and Credential paid \$200,000 in Settlement Funds;
6. Subsequent to the settlements, IIROC determined, with the approval of its Corporate Governance Committee, to allocate the Settlement Funds to investors who purchased ABCP from the Settling Firms;

7. In relation to the Scotia Settlement Funds:

- (a) IIROC wishes to distribute the Settlement Funds received from Scotia to investors who purchased ABCP issued by Coventree Inc. ("Coventree ABCP") from Scotia between July 25 and August 10, 2007, inclusive, who continued to hold this ABCP on August 13, 2007, the date the third-party ABCP market froze, and who were not aware of the fact that a number of Coventree conduits contained significant U.S. subprime exposure, as disclosed in an email sent to Scotia by Coventree on July 24, 2007;
- (b) Each such investor will receive a proportionate amount of the Settlement Funds paid by Scotia, based on the purchase price paid by the investor, less any cash amounts received by the investor with respect to its Coventree ABCP on or before January 12, 2009 or subsequently from a registered dealer, other than Scotia, from or through whom the investor purchased its Coventree ABCP;
- (c) IIROC will publish a news release jointly with the OSC announcing its proposed distribution and the terms on which investors are eligible to obtain their proportionate amount of the Settlement Funds paid by Scotia and will send a joint OSC-IIROC notice (the "Joint Notice") to all such investors, describing the eligibility criteria and the method of calculating the funds to be distributed to them; and
- (d) As Canaccord and Credential purchased Coventree ABCP from Scotia during the relevant period, Canaccord and Credential will be entitled to participate in the distribution on behalf of their clients who purchased this Coventree ABCP through or from it and who satisfy the eligibility criteria contained in the Joint Notice, but neither Canaccord nor Credential will be entitled to participate in the distribution of these Settlement Funds on their own behalf.

8. In relation to the Canaccord & Credential Settlement Funds:

- (a) Canaccord and Credential each established relief programs under which they returned to their clients a substantial amount of their losses from the purchase of third-party ABCP;
- (b) Clients of Canaccord and Credential who purchased third-party ABCP from one of them, other than Coventree ABCP purchased directly or indirectly from Scotia after July 24, 2007, and who continued to hold this ABCP on August 13, 2007 will receive a proportionate share of the Settlement Funds paid to IIROC by Canaccord or Credential, as applicable, based on the purchase price paid by the client for the third-party ABCP held on August 13, 2007, less any cash amounts received by the client with respect to the ABCP from Canaccord or Credential or otherwise; and
- (c) IIROC will publish a news release announcing its proposed distribution and the terms on which investors are eligible to obtain their proportionate amount of the Settlement Funds paid by Canaccord and Credential and will send a notice (the "IIROC Notice") to all such investors, describing the eligibility criteria and the method of calculating the funds to be distributed to them;

9. None of Scotia, Canaccord or Credential will be permitted to receive any of the Settlement Funds, directly or indirectly;

10. IIROC and the OSC have agreed jointly to retain an administrator (the "Administrator") to administer the distribution of the Settlement Funds paid by the Settling Firms and of settlement funds paid by the other firms that entered into settlement agreements approved by the OSC on December 21, 2009 and have agreed to share the costs of the administration of all the settlement funds, in particular, the Administrator's fees and expenses, on a proportionate basis; IIROC wishes to pay its share of the Administrator's fees and expenses from other funds that are held subject to Section 9; and
11. Section 9 restricts the use of the Settlement Funds to specified purposes that benefit investors; it permits IIROC to use payments made under settlement agreements for the administration of its disciplinary hearing panels or, subject to approval by IIROC's Corporate Governance Committee, the development of systems and other non-recurring capital expenditures necessary to address emerging regulatory issues and education about and research into investing and similar matters, but these purposes do not permit it to use the Settlement Funds or other funds held subject to Section 9 to benefit investors by distributing the Settlement Funds or paying the costs of administration relating to distribution of the Settlement Funds.

#### **Order**

12. Considering that it would not be prejudicial to the public interest to do so, it is ordered, pursuant to section 144.(1) of the *Act*, that IIROC is exempt from Section 9 with respect to the distribution of the Settlement Funds to investors and/or clients of the Settling Firms who satisfy the eligibility criteria in the Joint Notice and the IIROC Notice, as applicable, including the costs of administration of the distribution.

**Dated** at St. John's, Newfoundland and Labrador this 26th day of March, 2012.

  
**Douglas Connolly, C.G.A.**  
Superintendent of Securities