FOR IMMEDIATE RELEASE

ABCP

SETTLEMENTS REACHED FOLLOWING A JOINT INVESTIGATION

Montréal, December 21st, 2009 – The *Autorité des marchés financiers* (AMF), the Ontario Securities Commission (OSC) and the Investment Industry Regulatory Organization of Canada (IIROC) announced that they have reached settlements in connection with the investigations into the Canadian asset-backed commercial paper (ABCP) market providing for the payment of $138.8 million in administrative penalties and investigation costs, broken down as follows:

Institution	Amount obtained
National Bank Financial Inc. (NBF)	$75 million
Scotia Capital Inc. (Scotia)	$29.27 million
Canadian Imperial Bank of Commerce and CIBC World Markets Inc. (CIBC / CIBCWM)	$22 million
HSBC Bank Canada (HSBC)	$6 million
Laurentian Bank Securities Inc. (Laurentian)	$3.2 million
Canaccord Financial Ltd. (Canaccord)	$3.1 million
Credential Securities Inc. (Credential)	$0.2 million

With regard to financial penalties imposed, a fair and appropriate use for the sanction monies will be determined in accordance with applicable laws, court orders and in the public interest. In addition, the sanctions approved by the respective organizations include a focus upon compliance – each institution agrees to have an independent compliance review or verification of its fixed income department undertaken by an outside consultant.

Settlements were reached between the regulators and those seven institutions involved in the Canadian third party ABCP market. The OSC has reached two settlements: one with CIBC and the other with HSBC. IIROC has reached three settlements, with Scotia, Canaccord and Credential respectively. Lastly, the AMF has reached two settlements, one of which is with NBF, and the other with Laurentian.

Five of the institutions involved are alleged to have failed to adequately respond to issues in the third party ABCP market, as they continued to buy and/or sell without engaging compliance and other appropriate processes for assessing such issues. Particularly, they did not disclose to all their clients the July 24th e-mail from Coventree providing the subprime exposure of each Coventree ABCP conduit. In the case of Credential and Canaccord , these institutions are alleged to have failed to take adequate steps to ensure that its Approved Persons understood the complexities of the third party ABCP and, in not taking these adequate steps, did not ensure that the purchase of third party ABCP was appropriately understood by its clients.

The enforcement review activity related to the ABCP matter is the product of a close collaboration among the AMF, the OSC and IIROC who worked together in the public interest to respond to the securities regulatory issues arising from the ABCP market freeze.

The OSC and IIROC have begun disciplinary hearings against Coventree and Deutsche Bank Securities Limited in this matter.

The *Autorité des marchés financiers* (AMF) is the regulatory and oversight body for Québec's financial sector.

The OSC is the regulatory body responsible for overseeing Ontario's capital markets, which include the equities, fixed income and derivatives markets.

IIROC is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada.

– 30 –

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IIROC OCRCVM
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IIROC NOTICE

Enforcement Notice
Decision

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09-0369
December 21, 2009

IN THE MATTER OF Scotia Capital Inc. – Settlement

SUMMARY

On December 21, 2009, a Hearing Panel of the Investment Industry Regulatory Organization of Canada (IIROC) accepted a Settlement Agreement between the IIROC Staff and Scotia Capital Inc. (the "Respondent"). Pursuant to the Settlement Agreement, the Respondent admitted that:

> Between July 25 and August 10, 2007, the Respondent failed to adequately respond to emerging issues in the Coventree asset-backed commercial paper (ABCP) market insofar as it continued to sell Coventree ABCP without engaging Compliance and other appropriate processes for the assessment of such emerging issues, contrary to Investment Dealers Association By-law 29.1 (ii) (now IIROC Dealer Member Rule 29.1(ii)).

Pursuant to the Settlement Agreement, the Hearing Panel imposed the following penalty against the Respondent:

(a) Payment of $28,950,000 pursuant to IIROC Dealer Member Rules;

(b) Payment of investigation costs of $320,000; and

(c) The retention of an independent consultant to verify the remedial actions already taken by the Respondent in relation to its fixed income business.

IIROC formally initiated the investigation into the Respondent's conduct on February 13, 2008. The alleged violation occurred when the Respondent was a member firm of the Investment Dealers Association (IDA). The Respondent is currently an IIROC dealer member.

The Hearing Panel will issue its Reasons and Decision on a later date. The approved Settlement Agreement is available at: http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=638788F963B74D68A381923E5BF5B926&Language=en

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

IN THE MATTER OF:

THE RULES OF THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

AND

THE BY-LAWS OF THE INVESTMENT DEALERS ASSOCIATION OF CANADA

AND

SCOTIA CAPITAL INC

SETTLEMENT AGREEMENT

I. INTRODUCTION

1. The Enforcement Department Staff ("Staff") of the Investment Industry Regulatory Organization of Canada ("IIROC") has conducted an investigation (the "Investigation") into the conduct of Scotia Capital Inc. (the "Respondent" or "Scotia Capital").

2. The Investigation discloses matters for which the Respondent may be disciplined by a hearing panel appointed pursuant to IIROC Transitional Rule No.1, Schedule C.1, Part C ("the Hearing Panel").

II. JOINT SETTLEMENT RECOMMENDATION

3. Staff and the Respondent consent and agree to the settlement of these matters by way of this settlement agreement (the "Settlement Agreement") in accordance with IIROC Dealer Member Rule 20.35-20.40, inclusive and Rule 15 of the Dealer Member Rules of Practice and Procedure.

4. The Settlement Agreement is subject to acceptance by the Hearing Panel.

5. The Settlement Agreement shall become effective and binding upon the Respondent and Staff as of the date of its acceptance by the Hearing Panel.

6. The Settlement Agreement will be presented to the Hearing Panel at a hearing ("the

Settlement Hearing") for approval. Following the conclusion of the Settlement Hearing, the Hearing Panel may either accept or reject the Settlement Agreement.

7. If the Hearing Panel accepts the Settlement Agreement, the Respondent waives its rights under IIROC rules and any applicable legislation to a disciplinary hearing, review or appeal and IIROC agrees not to initiate or continue any disciplinary proceedings against the Respondent or any of its current or former employees in connection with the same or similar facts as are set out in the Settlement Agreement.

8. If the Hearing Panel rejects the Settlement Agreement, Staff and the Respondent may enter into another settlement agreement; or Staff may proceed to a disciplinary hearing in relation to the matters disclosed in the Investigation.

9. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel.

10. Staff and the Respondent agree that if the Hearing Panel accepts the Settlement Agreement, they, or anyone on their behalf, will not make any public statements inconsistent with the Settlement Agreement. Nothing in this section is intended to restrict the Respondent from making full answer and defence to any civil proceedings against it.

11. Staff and the Respondent jointly recommend that the Hearing Panel accept the Settlement Agreement.

III. STATEMENT OF FACTS

ACKNOWLEDGEMENT

12. Staff and the Respondent agree with the facts set out in this Section for the purpose of this Settlement Agreement only and further agree that this agreement of facts is without prejudice to the Respondent or Staff in any other proceeding of any kind, including, but without limiting the generality of the foregoing, any proceedings brought by IIROC or any civil or other proceedings which may be brought by any other person or agency. No other person or agency may raise or rely upon the terms of this Settlement Agreement or any agreement to the facts stated herein whether or not this Settlement Agreement is approved by the Hearing Panel.

OVERVIEW

13. At all material times, the Respondent was a Member firm of the IDA, with its head office located in Toronto, Ontario. On June 1, 2008, the Respondent became a Member firm of IIROC.

14. On August 13, 2007, the Canadian non-bank sponsored asset-backed commercial paper ("ABCP" or "third-party ABCP") market collapsed, leaving Canadian investors holding

illiquid investments that they could neither sell nor redeem.

15. The Respondent acted as a distribution agent for third-party ABCP.

ASSET-BACKED COMMERCIAL PAPER

16. ABCP is a short-term debt instrument with typical maturities of 30 to 180 days. ABCP is backed by a pool of underlying assets and offers a yield slightly better than the yield offered on short-term government debt.

17. ABCP is issued by a special purpose vehicle (also referred to as a conduit). In Canada, the conduits are trusts established by sponsors. Sponsors generally select underlying assets, administer the assets and arrange for the sale of the ABCP notes. The Canadian ABCP market included two categories: bank-sponsored and non-bank-sponsored (or third-party) ABCP.

18. As the underlying assets held by conduits were long-term and the ABCP notes were short-term, there was a timing mismatch between the cash flowing from the assets and the cash needed to repay maturing ABCP. For many years, conduits met their maturity obligations by selling newly issued ABCP, the proceeds of which were used to pay maturing ABCP. The liquidity of ABCP was an important characteristic for investors along with credit ratings and yields.

19. To safeguard against difficulty meeting maturity obligations, conduits entered into agreements with liquidity providers which provided credit lines under certain conditions. In general, there were two types of liquidity facilities: (1) general market disruption ("GMD") and (2) global-style. GMD liquidity was also called "Canadian-style" since it was only available in the Canadian ABCP market. Unlike global-style liquidity facilities, Canadian-style liquidity facilities required specified "general market disruption" events and a credit rating affirmation before liquidity was provided.

20. Liquidity agreements were subject to confidentiality provisions. Many details of the pre-conditions required for liquidity support for individual conduits, including the definition of a "general market disruption event", were not known to the public, investors or to the distributors of ABCP who were not also the liquidity providers to those individual conduits. Conduits generally disclosed the existence of their liquidity arrangements and disclosed that there were pre-conditions to draws.

21. As of September 2005, ABCP was distributed in Canada pursuant to the short-term debt exemption in section 2.35 of National Instrument 45-106 – Prospectus and Registration Exemptions, which provided an exemption for commercial paper with an approved credit rating from an approved credit rating organization. The conduits issuing the ABCP were not reporting issuers under applicable securities laws and therefore were not required to provide continuous disclosure.

22. Dominion Bond Rating Services Limited ("DBRS"), an approved credit rating

organization, was the sole credit rating organization which rated third-party ABCP in Canada.

23. On January 19, 2007, DBRS announced changes to its rating methodology for certain new transactions entered into by ABCP issuers. The DBRS press release set out specific new rating criteria, including a requirement for global-style liquidity, to be applied prospectively in the marketplace. No credit ratings on existing ABCP in the marketplace were affected by these changes.

THIRD-PARTY ABCP

24. ABCP has been in the Canadian marketplace for over a decade, and non-bank sponsors entered the marketplace in approximately 2000.

25. Historically, the assets underlying ABCP consisted of traditional assets such as consumer loans, credit card receivables and residential mortgages. Non-traditional complex synthetic assets, such as collateralized debt obligations, came into these structures over time.

26. Third-party ABCP was typically issued by a series of notes, the most common being Series "A" Notes and Series "E" Notes. The "A" Notes were supported by the Canadian-style liquidity facilities. "E" Notes were not, but could be extended up to 364 days after the original issuance date if certain conditions were met, including that market conditions did not allow for "E" Notes to be sold at a specified spread.

27. The sponsors provided limited information regarding the underlying pool of assets in conduits issuing ABCP. Sponsors typically provided an information memorandum describing the basic elements of ABCP. In most cases, the general asset classes were the only information publicly disclosed; there was no disclosure of the specific assets held in the conduits or the terms of the liquidity agreements supporting the ABCP.

COVENTREE INC.

28. At all material times, Coventree Inc. was the largest sponsor of third-party ABCP in Canada. Coventree Inc. also issued third-party ABCP through a subsidiary, Nereus Financial Inc. ("Nereus").

29. At all material times, Coventree Inc. and Nereus (collectively, "Coventree") sponsored the following third-party ABCP conduits: Apollo Trust, Aurora Trust, Comet Trust, Gemini Trust, Planet Trust, Rocket Trust, Slate Trust, Venus Trust, Structured Investment Trust III ("SIT III") and Structured Asset Trust ("SAT").

30. All Coventree conduits but one received an R1-(high) rating (the highest credit rating available, equivalent to a "AAA" for long term debt) by DBRS, as did other Canadian

third-party ABCP. This rating remained in place at all material times up to and including August 13, 2007. Coventree ABCP was rated by DBRS above the minimum "approved credit rating" required by NI45-106 at all material times.

DISTRIBUTION OF THIRD-PARTY ABCP

31. In general, third-party ABCP was distributed to investors through a dealer group (the "dealer syndicate"). Typically, one member of the dealer syndicate would be appointed as lead dealer. Some of the lead dealer's daily duties included the allocation of ABCP notes to dealer syndicate members and setting the yield in consultation with the conduit sponsor.

32. The dealer syndicate members maintained trading lines, up to a credit limit, for third-party ABCP mainly to provide a market-making function. Dealer syndicate members would typically purchase third-party ABCP that was not sold at the end of a trading day. These positions were to be held on a short-term basis, typically overnight, until the notes could be sold to investors. Dealer syndicate members also purchased previously issued third-party ABCP from clients. While the dealer syndicate was under no obligation to purchase any previously issued third-party ABCP, they did so from time to time as a service to their clients. Dealer syndicate members other than the lead dealer also had the option to turn back ABCP to the lead dealer if they were unable to sell their daily allocation, but this was not their ordinary practice.

33. Third-party ABCP traded in a dealer market, also known as an over-the-counter ("OTC") market. Unlike an auction market or exchange, the OTC market did not have a centralized quotation system.

34. Investors were provided with access by the conduit sponsors to information memoranda, conduit reports and other documentation prepared by the sponsors, and to DBRS reports. The information that ABCP purchasers typically requested of dealers and dealers provided was the name, yield, term and credit rating of third-party ABCP.

THE MARKET FREEZE

35. On August 13, 2007, a number of Canadian third-party ABCP conduits including the Coventree conduits were unable to sell new ABCP to fund the repayment of maturing ABCP. Many of the conduits' liquidity providers did not agree that the conditions for liquidity funding had occurred and refused to provide liquidity to the affected conduits.

36. As of August 13, 2007, the third-party ABCP market totaled approximately $35 billion, with Coventree conduits representing approximately 46 percent of the value of the third-party ABCP market.

37. On August 16, 2007, a consortium representing banks, asset providers and major ABCP

holders agreed to take steps to establish normal operations in the ABCP market. This agreement was known as the Montreal Proposal.

38. A Pan-Canadian Investors Committee, including investors who were signatories to the Montreal Proposal plus other significant holders, was established to oversee the restructuring of third-party ABCP. It put forward the Plan of Compromise and Arrangement (the "Plan"), which was implemented on January 21, 2009.

39. Pursuant to the Plan, holders of the eligible third-party ABCP had their short-term notes exchanged for longer term notes to match more closely the maturity dates of the underlying assets. These new notes were issued by Master Asset Vehicles ("MAVs"). It is not currently possible to determine if any or all of the notes of the MAVs will mature at par value.

THE RESPONDENT'S ROLE IN SELLING THIRD PARTY ABCP

40. The Respondent first started selling third-party ABCP market around 2002.

41. At all material times, the Respondent was a member of the dealer syndicates distributing all of the Coventree conduits. The Respondent acted as lead distribution agent for Coventree conduits SIT III and SAT.

42. The Respondent sold Coventree ABCP primarily to institutional investors that did not rely on the Respondent for advice. While five retail clients purchased Coventree ABCP through the Respondent prior to July, 2007, the Respondent did not market Coventree ABCP to retail clients.

EMERGING ISSUES

(a) US Subprime Exposure

43. During the period from March to June, 2007, increasing defaults in US subprime mortgages started to place strains on credit markets in the United States.

44. The Respondent first learned that some of the Coventree conduits may have contained United States (US) subprime mortgages in March 2007.

45. The Respondent and some of its clients attended a Coventree investor presentation in late April 2007. At the presentation, Coventree disclosed that the overall US subprime exposure in its conduits was 7.4 percent.

46. As a result of the widening spreads for fixed income securities during the summer of 2007, the Respondent's senior management required staff to manage down inventories, including commercial paper inventories.

47. During July 2007, the Respondent raised with Coventree the issue of the possible effects of US subprime on the credit markets and recommended in a July 20th email that Coventree provide full disclosure regarding US subprime in the individual conduits. The Respondent was concerned about the negative effect unwarranted rumours might have on the third-party ABCP market. The head of Coventree's funding group responded to the email by stating that she agreed that Coventree should be proactive and disclose the exposure of its conduits.

48. On July 23, 2007, the Respondent authorized the purchase of $38.9 million in Comet E notes from the CDPQ. The purchase of the Comet E position was contrary to management's objective of managing down inventory levels. Upon learning of the Comet E purchase, management directed the sales staff to sell the position.

49. On July 24, 2007, Coventree sent an email (the "July 24th email") to all of Coventree's syndicate members, including the Respondent, setting out information regarding US subprime exposure in Coventree conduits as of June 28, 2007. The US subprime content in each of the conduits was noted as follows:

Conduits	**Series A**	**Series E**	**Total ABCP**
Aurora Trust	0%	8%	3%
Comet Trust	0%	**42%**	16%
Planet Trust	**26%**	3%	17%
Slate Trust	0%	**16%**	13%
Apollo Trust Gemini Trust Rocket Trust Venus Trust	0%	0%	0%
SAT	0%	0%	0%
SIT III	1%	0%	1%
TOTAL	**3%**	**6%**	**5%**

50. The email included summary notes which stated, among other things, that all deals remained at AAA level, were performing as expected, there were minimal loss levels and that subprime exposure was to the more favourable pre-2006 vintages. The Respondent had not previously received such particulars on the subject of US subprime from

Coventree.

51. Coventree did not put any limitations on disclosure of the information contained in the July 24th email. Coventree expressly told the Respondent that it left it to the syndicate members to exercise their own judgement in deciding whether to distribute the information to clients.

52. The information communicated in the July 24th email concerning subprime content was not verifiable through publicly available sources. The Respondent, however, took steps to verify the information. Specifically, it confirmed with Coventree the fact that the subprime assets were of the more favourable pre-2006 vintage in addition to the fact that Coventree was rebalancing the subprime content of its conduits. The Respondent also confirmed with DBRS, who had full knowledge of the subprime content, that there was no threat of a ratings downgrade in any of the Coventree conduits and that the assets continued to be rated AAA notwithstanding the subprime content.

53. The Respondent encouraged Coventree to publicly disseminate the information with the necessary contextual information and interpretation.

54. The Respondent requested that DBRS provide further transparency on subprime exposure, stability cushions and downgrade remoteness, but DBRS did not do so. In addition, Coventree did not publicly disclose the information contained in the July 24th email.

55. In the weeks following the July 24th email, the Respondent came to believe that some of its clients had already learned of US subprime mortgage exposure in Coventree conduits. At the same time, one of the Respondent's other clients that was in receipt of the July 24th email was asking questions about US subprime content in third-party ABCP.

56. After the Respondent's management became aware of the July 24th email, it did not change the earlier direction to reduce inventories. From July 25 to August 1, 2007, the Respondent sold the Comet E position in seven trades to corporate/institutional purchasers who were previous purchasers of Coventree ABCP. The notes were to mature on August 21, 2007.

(b) Liquidity Issues

57. Beginning in late July 2007, the ability to place Coventree paper was a concern for the Respondent although Coventree ABCP continued to roll up to August 13, 2007. The dealer syndicates including the Respondent offered higher yields in order to sell Coventree ABCP to investors. While the widening spreads were one indicator of liquidity issues that was apparent to investors, the Respondent, in its capacity as lead dealer, possessed additional information regarding the ability of Coventree's syndicates to roll over maturing ABCP and issue new ABCP. Some of the Respondent's clients did not have the ability to independently assess the liquidity in the market.

58. By late July, the Respondent began to collect information on the procedures to be followed to draw down liquidity from the liquidity providers. By August 3, 2007, the

Respondent was aware that liquidity issues may affect the Coventree ABCP market.

59. The Respondent continued to buy and distribute Coventree ABCP pursuant to its obligations in dealer agreements up to August 10, 2007. The Respondent's parent bank honoured its liquidity agreements on August 13, 2007 and the Respondent expected that other liquidity providers would also advance funds under their liquidity agreements. However, the Respondent did not have access to the liquidity agreements of other liquidity providers.

THE RESPONDENT'S RESPONSE TO EMERGING ISSUES

60. Notwithstanding the events described above, the Respondent failed to fully assess the information in the July 24th e-mail in a meaningful way. The Respondent did not notify its Compliance Department ("Compliance") of the July 24th email or its contents until after August 13, 2007.

61. Notwithstanding its concerns about emerging market issues for Coventree ABCP, the Respondent failed to engage an adequate process to fully assess the impact of those concerns. The Respondent did not notify Compliance of its concerns.

62. Notwithstanding the emerging issues relating to the Coventree ABCP market as described above, the Respondent continued to sell Coventree ABCP to institutional clients, primarily by way of newly issued paper.

63. From July 25 to August 3, 2007, the Respondent sold Comet E from inventory, as noted in paragraph 56, and newly issued Planet A ABCP in the amount of $35,400,000, to institutional clients who the Respondent was not aware had knowledge of the US subprime exposure.

64. On August 3 the Respondent sold $28 million and from August 7 to 10 the Respondent sold $235 million in newly issued Aurora A, SAT A, and SIT III A to institutional clients (excluding sales of ABCP that matured prior to August 13, 2007 and sales to the CDPQ and other certain professional counterparties).

THE RESPONDENT'S POSITION

65. Upon the market disruption, the Respondent issued market disruption notices to the conduits. The Respondent's parent, Scotiabank, had entered into liquidity agreements with conduits with terms intended to ensure that in circumstances such as those that occurred, Scotiabank would advance funds to the conduits to enable them to repay investors whose paper was maturing. When the market disruption occurred, Scotiabank honoured its liquidity agreements paying out $91 million in a timely manner that went to pay investors whose ABCP was maturing at that time.

66. In 2007, Scotiabank also led the restructuring of another non-Coventree third-party ABCP conduit that resulted in purchasers receiving back 98.7% of their principal.

67. At the request of the Pan-Canadian Investors' Committee, Scotiabank committed $200 million to provide additional margin support for the restructured long-term notes issued in exchange for the outstanding third-party ABCP, which is to the benefit of investors.

68. In August, 2007, the retail brokerage division of the Respondent repurchased third-party ABCP from retail clients who purchased third-party ABCP through the Respondent.

69. Since August 2007, the Respondent has taken, and continues to take, steps which, directly or indirectly, will enhance compliance awareness among the Respondent's commercial paper personnel.

70. The Respondent fully cooperated with the regulatory investigation.

IV. CONTRAVENTIONS

71. The Respondent admits to the following contraventions of IIROC Rules, Guidance, IDA By-Laws, Regulations or Policies:

> Between July 25 and August 10, 2007, the Respondent failed to adequately respond to emerging issues in the Coventree ABCP market insofar as it continued to sell Coventree ABCP without engaging Compliance and other appropriate processes for the assessment of such emerging issues, contrary to IDA By-law 29.1 (ii) (now Dealer Member Rule 29.1(ii)).

V. TERMS OF SETTLEMENT

72. Based on these facts and admissions, Scotia Capital Inc. agrees to the following terms of settlement :

(a) Payment of $28,950,000 pursuant to IIROC Dealer Member Rules, upon acceptance of the Settlement Agreement;

(b) Payment of investigation costs of $320,000, upon acceptance of the Settlement Agreement; and

(c) The retention of an independent consultant to verify the remedial actions taken by the Respondent, in accordance with Schedule A of the Settlement Agreement.

VI. STAFF COMMITMENT

73. If the Hearing Panel approves this Settlement Agreement, Staff, the Ontario Securities Commission and Autorité des marchés financiers will not commence any proceeding under applicable legislation and rules against the Respondent or any of its affiliates or their respective present or former directors, officers, employees or agents in relation to the facts set out in Part III of this Settlement Agreement.

AGREED TO by the Respondent at the City of Toronto in the Province of Ontario, this __17th__ day of December, 2009.

WITNESS

RESPONDENT

AGREED TO by Staff at the City of Toronto in the Province of Ontario, this ___17th___ day of December, 2009.

WITNESS

ELSA RENZELLA
Enforcement Counsel on behalf of
Staff of the Investment Industry
Regulatory Organization of Canada

WITNESS

TAMARA BROOKS
Enforcement Counsel on behalf of
Staff of the Investment Industry
Regulatory Organization of Canada

ACCEPTED at the City of Toronto in the Province of Ontario, this 21st day of December, 2009, by the following Hearing Panel:

Per: _____
Mr. Frederick Webber, Panel Chair

Per: _____
Mr. Donald (Sandy) Grant, Panel Member

Per: _____
Mr. Guenther Kleberg, Panel Member

SCHEDULE "A" – TERMS OF REFERENCE FOR

COMPLIANCE VERIFICATION

A. Remedial Steps Taken by the Respondent

1. After August 2007, the Respondent reviewed its policies and procedures in connection with the fixed income business and took the following remedial actions:

    a.

B. Retention of the Consultant

2. The Consultant's compensation and expenses shall be borne exclusively by the Respondent.

3. The agreement with the Consultant ("Agreement") shall provide that the Consultant will conduct a verification of the implementation of the actions outlined in A above insofar as they relate to:

    a. The Respondent's compliance and oversight functions concerning its trading and sales functions with the fixed income department;

    b. any committees or other mechanisms established to review and approve new securities products in the fixed income department and changes to those products

    c. the Respondent's training of its staff concerning new securities products in the fixed income department, and changes to those products;

    d. the Respondent's training of its staff concerning the escalation of issues to compliance and engaging other appropriate processes;

    (collectively, the "Review").

C. The Consultant's Reporting Obligations

4. The Consultant shall issue a draft report to the Respondent and IIROC within 3 months of appointment and in that regard will be provided the opportunity to present its report to the Board of Directors of the Respondent.

5. The Consultant shall engage with the Respondent in discussions regarding the draft report with a view to reaching consensus and finalizing the report within 1 month of the

delivery of the draft report. If requested by the Consultant, the Consultant will be provided with an opportunity to present its final report to the Board of Directors of the Respondent, and may explain any areas of disagreement with management of the Respondent.

6. The Consultant will deliver the final report to the Respondent and to IIROC.

7. The Consultant's draft and final reports shall include a description of the verification review performed, whether the remedial action taken by the Respondent as it relates to 3(a-d) conforms to regulatory requirements, and, if not, the Consultant's recommendations for any changes to those remedial actions as the Consultant reasonably deems necessary.

8. The Respondent will, within 60 days after receipt of the Consultant's report, advise IIROC of a timetable to implement the recommendations contained in the report; however, in the event the Respondent disagrees with any of the recommendations, the Respondent shall so advise IIROC and provide its reasons for such position and, if applicable, any alternative actions, policies or procedures the Respondent intends to adopt.

9. The Respondent shall certify to IIROC, by certificate executed on its behalf by each of the CEO, the UDP, the CCO and the and the Chair of the Board of Directors of the Respondent, that the Respondent has implemented those recommendations of the Consultant which it had agreed upon, and will do so promptly following such implementation.

10. For greater certainty, the terms of this compliance review do not limit in any respect the authority of IIROC to undertake, as part of their normal course audit activities, a review of all matters within the scope of the Review or any other aspect of the business of the Respondent.

D. Terms of the Consultant's Retention

11. The selection of the Consultant shall be made promptly following the approval of the Settlement Agreement, but in any event by no later than January 31, 2010, by mutual agreement between the Respondent and IIROC.

12. The Consultant shall have reasonable access to all of the Respondent's books and records. The Respondent shall instruct and otherwise encourage its officers, directors, and employees to cooperate fully with the review conducted by the Consultant, and inform its officers, directors, and employees that failure to cooperate with the Review may be grounds for disciplinary action.

13. The Consultant shall make and keep notes of interviews conducted, and keep a copy of documents gathered, in connection with the performance of his or her responsibilities.

IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

IIROC NOTICE

Enforcement Notice Decision

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09-0367
December 21, 2009

IN THE MATTER OF Canaccord Financial Ltd. – Settlement

SUMMARY

On December 21, 2009, a Hearing Panel of the Investment Industry Regulatory Organization of Canada (IIROC) accepted a Settlement Agreement between the IIROC Staff and Canaccord Financial Ltd. (the "Respondent"). Pursuant to the Settlement Agreement, the Respondent admitted that:

> In or about 2006 and 2007, the Respondent did not take steps to adequately ensure its sales staff understood the complexities of the third-party asset-backed commercial paper (ABCP) product it offered for sale to retail clients and the consequent risks (including systemic risks and counterparty risks) related to the product and, in not taking these adequate steps, did not ensure that the purchase of third-party ABCP was appropriately understood by its clients, contrary to Investment Dealers Association Regulation 1300.1(a) (now IIROC Dealer Member Rule 1300.1(a)).

Pursuant to the Settlement Agreement, the Hearing Panel imposed the following penalty against the Respondent:

(a) a fine in the amount of $3,100,000 (inclusive of costs); and

(b) an order to retain an independent consultant to carry out a compliance review relating to due diligence practices and procedures relating to fixed income securities.

IIROC formally initiated the investigation into the Respondent's conduct on May 7, 2008. The alleged violation occurred when the Respondent was a member firm of the Investment Dealers Association (IDA). The Respondent is currently an IIROC dealer member.

The Hearing Panel will issue its Reasons and Decision on a later date. The approved Settlement Agreement is available at: http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=E6AC1AC584C84EB789964047EB0BB256&Language=en

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

IN THE MATTER OF:

THE RULES OF THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

AND

THE BY-LAWS OF THE INVESTMENT DEALERS ASSOCIATION OF CANADA

AND

CANACCORD FINANCIAL LTD. (FORMERLY CANACCORD CAPITAL CORPORATION)

SETTLEMENT AGREEMENT

I. INTRODUCTION

1. The Enforcement Department Staff ("Staff") of the Investment Industry Regulatory Organization of Canada ("IIROC") has conducted an investigation ("the Investigation") into the conduct of Canaccord Financial Ltd. ("the Respondent").

2. The Investigation was commenced by Enforcement Department Staff ("IDA Staff") of the Investment Dealers Association of Canada ("IDA") prior to May 30, 2008. On June 1, 2008, IIROC consolidated the regulatory and enforcement functions of the Investment Dealers Association of Canada and Market Regulation Services Inc. Pursuant to the *Administrative and Regulatory Services Agreement* between IDA and IIROC, effective June 1, 2008, the IDA has retained IIROC to provide services for IDA to carry out its regulatory functions.

3. On or about December 1, 2009, Canaccord Capital Corporation changed its name to Canaccord Finacial Ltd.

4. The Investigation discloses matters for which the Respondent may be disciplined by a hearing panel appointed pursuant to IIROC Transitional Rule No.1, Schedule C.1, Part C ("the Hearing Panel").

II. JOINT SETTLEMENT RECOMMENDATION

5. The Respondent consents to be subject to the jurisdiction of IIROC.

6. Staff and the Respondent consent and agree to the settlement of these matters by way of this settlement agreement ("the Settlement Agreement") in accordance with IIROC Dealer Member Rules 20.35 to 20.40, inclusive and Rule 15 of the Dealer Member Rules of Practice and Procedure.

7. The Settlement Agreement is subject to acceptance by the Hearing Panel.

8. The Settlement Agreement shall become effective and binding upon the Respondent and Staff as of the date of its acceptance by the Hearing Panel.

9. The Settlement Agreement will be presented to the Hearing Panel at a hearing ("the Settlement Hearing") for approval. Following the conclusion of the Settlement Hearing, the Hearing Panel may either accept or reject the Settlement Agreement.

10. If the Hearing Panel accepts the Settlement Agreement, the Respondent waives its right under IIROC rules and any applicable legislation to a disciplinary hearing, review or appeal.

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13. Staff and the Respondent agree that if the Hearing Panel accepts the Settlement Agreement, they, or anyone on their behalf, will not make any public statements inconsistent with the Settlement Agreement.

14. Staff and the Respondent jointly recommend that the Hearing Panel accept the Settlement Agreement.

III. STATEMENT OF FACTS

(i) Acknowledgment

15. Staff and the Respondent agree with the facts set out in this Section III and acknowledge that the terms of the settlement contained in this Settlement Agreement are based upon those specific facts.

(ii) Factual Background

ASSET-BACKED COMMERCIAL PAPER ("ABCP")

16. ABCP is a short-term debt instrument with typical maturities of 30 to 180 days. ABCP is backed by a pool of underlying assets and offers a yield slightly better than the yield offered on short-term government debt.

17. ABCP is issued by a special purpose vehicle (also referred to as a conduit). In Canada, the conduits are trusts established by sponsors. Sponsors generally select underlying assets, administer the assets and arrange for the sale of the ABCP notes. The Canadian ABCP market included two categories: bank-sponsored and non-bank-sponsored (or third party) ABCP.

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21. As of September 2005, ABCP distributed in Canada was prospectus-exempt under the short-term debt exemption in section 2.35 of National Instrument 45-106 – *Prospectus and Registration Exemptions*, which provided an exemption for commercial paper with an approved credit rating from an approved credit rating organization.

22. Dominion Bond Rating Services Limited ("DBRS"), an approved credit rating organization, was the sole credit rating organization which rated third-party ABCP in Canada.

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new rating criteria, including a requirement for global-style liquidity. These rating criteria were only applied prospectively in the marketplace.

THIRD-PARTY ABCP

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COVENTREE INC.

28. At all material times, Coventree Inc. was the largest sponsor of third-party ABCP in Canada. Coventree Inc. also issued third-party ABCP through a subsidiary, Nereus Financial Inc. ("Nereus").

29. At all material times, Coventree Inc. and Nereus (collectively, "Coventree") sponsored the following third-party ABCP conduits: Apollo Trust, Aurora Trust, Comet Trust, Gemini Trust, Planet Trust, Rocket Trust, Slate Trust, Venus Trust, Structured Investment Trust III and Structured Asset Trust.

30. All Coventree conduits but one received an R-1 (high) rating (the highest credit rating available, equivalent to a "AAA" for long term debt) by DBRS, as did other Canadian third-party ABCP. This rating remained in place at all material times up to and including August 13, 2007.

THE DISTRIBUTION OF THIRD-PARTY ABCP

31. In general, third-party ABCP was distributed to investors through a dealer group (the "dealer syndicate"). Typically, one member of the dealer syndicate would be appointed as lead dealer. Some of the lead dealer's daily duties included the allocation of ABCP notes to dealer syndicate members and setting the yield in consultation with the conduit sponsor.

32. The dealer syndicate members maintained trading lines, up to a credit limit, for third-party ABCP mainly to provide a market-making function. Dealer syndicate members would typically purchase third-party ABCP that was not sold at the end of a trading day. These positions were to be held on a short-term basis, typically overnight, until the notes could be sold to investors. Dealer syndicate members also purchased third-party ABCP from clients in the secondary market. While the dealer syndicate was under no obligation to purchase any third-party ABCP, they did so to provide a secondary market, maintain liquidity in the market and/or as a service to their clients. Dealer syndicate members other than the lead dealer also had the option to turn back ABCP to the lead dealer if they were unable to sell their daily allocation, but this was not their ordinary practice.

33. Third-party ABCP traded in a dealer market, also known as an over-the-counter ("OTC") market. Unlike an auction market or exchange, the OTC market was not transparent to investors. As such, investors relied mainly upon the dealer syndicate for information relating to issues such as pricing, market depth and market volume.

34. The primary information that dealers disclosed to investors was the yield and credit rating of third-party ABCP.

THE MARKET FREEZE

35. On August 13, 2007, a number of Canadian third-party ABCP conduits including the Coventree conduits were unable to sell new ABCP to fund the repayment of maturing ABCP. Many of the conduits' liquidity providers did not agree that the conditions for liquidity funding had occurred and refused to provide liquidity to the affected conduits.

36. As of August 13, 2007, the third-party ABCP market totaled approximately $35 billion, with Coventree conduits representing approximately 46 percent of the value of the third-party ABCP market.

37. On August 16, 2007, a consortium representing banks, asset providers and major ABCP holders agreed to take steps to establish normal operations in the ABCP market. This agreement was known as the Montreal Proposal.

38. A Pan-Canadian Investors Committee, including investors who were signatories to the Montreal Proposal plus other significant holders, was established to oversee the restructuring of third-party ABCP. It put forward the Plan of Compromise and Arrangement (the "Plan"), which was implemented on January 21, 2009.

39. Pursuant to the Plan, holders of the eligible third-party ABCP had their short-term notes exchanged for longer term notes to match more closely the maturity dates of the underlying assets.

THE RESPONDENT'S OFFERING OF THIRD-PARTY ABCP

40. By August 2007, the Respondent's retail clients represented approximately 11% of the retail holdings of third-party ABCP in Canada.

41. The Respondent was a secondary dealer in both bank-sponsored and third-party ABCP. The Respondent relied primarily upon another Member firm who was the lead dealer for the majority of the third-party ABCP supplied to the Respondent. In addition, the Respondent was the carrying broker for another Member firm that also sold third-party ABCP to its retail clients.

42. Approximately 80% of the third-party ABCP sold by the Respondent to its retail clients was Structured Investment Trust III ("SIT III").

43. The Respondent's criteria for approving fixed-income products in general was set out in or around 1998 by its executive committee. This committee, consisting of senior management including the CEO, restricted the Respondent's retail offerings of fixed income products to those that were either rated R-1 (high) by DBRS Ltd (or an equivalent rating by another rating agency) or banker's acceptances rated "AA" or better. Fixed-income products rated R-1 (high) included bank-sponsored ABCP, third-party ABCP and government bonds.

44. Since the third-party ABCP products selected by the Respondent met the executive committee's basic criteria of R-1 (high) rating, they automatically became part of the Respondent's pool of fixed-income product offerings.

PRODUCT KNOWLEDGE

45. The Respondent did not perform adequate due diligence on bank-sponsored and third-party ABCP in order to learn and remain informed about the complexities of the ABCP product and the consequent risks (including systemic risks and counterparty risks) related to the product. The Respondent relied primarily on the credit rating provided by DBRS and secondarily relied upon corroborating information from the other Member firm who was the lead dealer for the majority of the third-party ABCP supplied to the Respondent. The Respondent did not differentiate between bank-sponsored and third-party ABCP since all relevant information available to the Respondent was virtually identical – liquidity structures, ratings, selling process, yields and pricing. So long as third-party ABCP met the minimum credit rating threshold, the Respondent's bond desk ("bond desk") was permitted to include third-party ABCP as part of its fixed-income offerings to retail clients.

46. The bond desk did not conduct any meaningful review of the complexities of the ABCP product and the consequent risks (including systemic risks and counterparty risks) related to the product. The bond desk placed third-party ABCP as a product on the Respondent's fixed-income offering sheet, providing only basic information about the credit rating, terms and return. The Respondent regularly circulated this offering sheet to its retail advisors. The Respondent also circulated DBRS rating reports that included a securitization report.

47. The Respondent did not take steps to adequately ensure its approved persons, including bond desk traders and retail advisors, involved in the sale and distribution of third-party ABCP to retail clients understood the complexities of the ABCP product and the

consequent risks related to the product including but not limited to the following:

- The basic structure of ABCP and the roles of the various entities (Canadian and international banks, sponsors, issuer, trustee, asset providers);
- The nature and composition of the underlying assets;
- The lack of transparency relating to the providers of underlying assets;
- The nature and limitations of the liquidity facilities;
- The new ratings methodologies of DBRS and the fact that they were applied only prospectively; and
- The lack of transparency relating to the identity of the liquidity providers.

48. Any queries about bank-sponsored and third-party ABCP from the Respondent's retail advisors or the Member firm with which it held a carrying broker arrangement were directed to the Respondent's bond desk. The bond desk in turn relied on answers it received from the lead dealer to respond to inquiries. The bond desk acted as a flow-through for information from the lead dealer and as such, it was overly reliant on that information and the DBRS rating.

49. The Respondent provided training to Approved Persons on matters generally restricted to the technical and mechanical aspects of trading these products. The information provided was insufficient given the complexities of the ABCP product and the consequent risks (including systemic risks and counterparty risks) related to the product.

50. Staff interviewed several of the Respondent's retail advisors who revealed that, except for basic information relating to term, return and rating, they knew very little about the complexities of the ABCP product and the consequent risks (including systemic risks and counterparty risks) related to the product. These advisors knew nothing about the issuer, the role of the issuer, the composition and structure of the product and its evolving characteristics. Consequently, advisors based suitability decisions on the rating, return and term of the product as well as any information they received from the bond desk.

51. The Respondent did not take steps to adequately ensure that its sales staff, including retail advisors, understood and appreciated the qualitative differences between the bank-sponsored and third-party ABCP and the other fixed income products it made available for sale to retail clients particularly as it related to the complexities of the ABCP product and the consequent risks (including systemic risks and counterparty risks) related to the product.

52. Without a full understanding of the complexities of the ABCP product and the consequent risks (including systemic risks and counterparty risks) related to the product, retail advisors were representing the product to their clients as an interest-rate sensitive investment with a credit rating identical to a government Treasury Bill, and as an alternative to a Guaranteed Investment Certificate or a term deposit.

CONTRAVENTION

53. In or about 2006 and 2007, the Respondent did not take steps to adequately ensure its sales staff understood the complexities of the third-party ABCP product it offered for sale to retail clients and the consequent risks (including systemic risks and counterparty risks) related to the product and, in not taking these adequate steps, did not ensure that the purchase of third-party ABCP was appropriately understood by its clients, contrary to Regulation 1300.1(a).

ADDITIONAL FACTORS

54. The Respondent made significant efforts to assist its clients after the market freeze. It was a party to the Montreal Proposal and, as a participant to the Pan-Canadian Investors Committee, provided both financial and leadership support.

55. Complementary to and in support of the Plan of Compromise and Arrangement, the Respondent established the Canaccord Relief Program to assist eligible clients. The total amount paid to eligible clients under this program was $152.2 million plus any unpaid interest and restructuring costs.

56. From the time of the market freeze, the Respondent also assisted clients suffering hardship because of their frozen ABCP holdings. Further, the Respondent has made offers to all its clients who are not eligible clients under the Canaccord Relief Program. Substantially all of these offers have been accepted by the clients.

VI. TERMS OF SETTLEMENT

57. IIROC and the Respondent agree to the following terms of settlement:

(i) A fine in the amount of $3,100,000 (inclusive of costs);

(ii) The Respondent agrees to undertake a compliance review by an outside Consultant, as detailed in Schedule A.

VII. STAFF COMMITMENT

58. If the Hearing Panel approves this Settlement Agreement, Staff, the Ontario Securities Commission and Autorité des marchés financiers will not commence any proceeding under applicable legislation and rules against the Respondent or any of its affiliates or their respective present or former directors, officers, employees or agents in relation to the facts set out in Part III of this Settlement Agreement.

AGREED TO by the Respondent at the City of Vancouver in the Province of British Columbia, this 16th day of December, 2009.

WITNESS	**RESPONDENT** **MARTIN L. MACLACHLAN**

AGREED TO by Staff at the City of Toronto in the Province of Ontario, this 17th day of December, 2009.

WITNESS	**TAMARA BROOKS** Enforcement Counsel on behalf of Staff of the Investment Industry Regulatory Organization of Canada
WITNESS	**ELSA RENZELLA** Enforcement Counsel on behalf of Staff of the Investment Industry Regulatory Organization of Canada

ACCEPTED at the City of Vancouver in the Province of British Columbia, this 21st day of December, 2009, by the following Hearing Panel:

Per: _____
Panel Chair

Per: _____
Panel Member

Per: _____
Panel Member

SCHEDULE "A" – TERMS OF REFERENCE FOR

COMPLIANCE REVIEW

A. Retention of the Consultant

Canaccord Financial Ltd. (the "Respondent") agrees to retain a third-party independent Consultant to carry out a review and report concerning the Respondent's due diligence practices and procedures relating to fixed income securities, subject to the terms set out below.

B. Terms of Reference for Engagement of the Consultant

1. The agreement with the Consultant ("Agreement") shall provide that the Consultant will conduct a review of the current state of the Respondent's product due diligence practices insofar as they relate to the fixed income business in the context of appropriate regulatory standards for such practices and their implementation by secondary market dealers in Canada and the IIROC notice 09-0087 entitled Best Practices for Product Due Diligence. The goal of the review is remedial and preventative.

2. The agreement with the Consultant ("Agreement") shall provide that the Consultant examine the policies, procedures and effectiveness of the current state of the Respondent's practices outlined in B(1) above insofar as they relate to:

   a) The Respondent's oversight of sales with respect to fixed income securities made available to clients pursuant to Dealer Member Rule 1300.1 and Dealer Member Rule 2500;

   b) Any committees or other mechanisms established to review and approve new fixed income securities products made available to clients and changes to those securities and products;

   c) The training of the Respondent's staff concerning fixed income securities; and

   d) The Respondent's procedures regarding staff compliance with the foregoing.

   (collectively the "Review")

C. The Consultant's Reporting Obligations

1. The Consultant shall issue a draft report to the Respondent and IIROC within three months of appointment and in that regard will be provided the opportunity to present its report to the Board of Directors of the Respondent.

2. The Consultant shall engage with the Respondent in discussions regarding the draft report with a view to reaching consensus and finalizing the report within one month of the delivery of the draft report. If requested by the Consultant, the Consultant will be provided with an opportunity to present its final report to the Board of Directors of the

Respondent and to explain any areas of disagreement with management of the Respondent.

3. The Consultant will deliver the final report to the Respondent and to IIROC.

4. The Consultant's draft and final reports shall include a description of the review performed, the conclusions reached, and the Consultant's recommendations for any changes or improvements to the Respondent's policies and procedures as the Consultant reasonably deems necessary to conform to regulatory requirements set out in Dealer Member Rule 1300.1, Dealer Member Rule 2500, and the IIROC notice 09-0087 entitled Best Practices for Product Due Diligence applicable to the subject matter of the Review in Section B(1) above.

5. The Respondent will, within 60 days after receipt of the Consultant's report, advise IIROC of a timetable to implement the recommendations contained in the report; however, in the event the Respondent disagrees with any of the recommendations, the Respondent shall so advise IIROC and provide its reasons for such position and, if applicable, any alternative actions, policies or procedures the Respondent intends to adopt.

6. Promptly following the implementation of those recommendations of the Consultant with which it did not disagree, the Respondent shall certify to IIROC, by certificate executed on its behalf by each of the President, the UDP and the CCO of the Respondent, that the Respondent has so implemented them.

7. For greater certainty, the terms of the Review do not limit in any respect the authority of IIROC to undertake, as part of their normal course audit activities, a review of all matters within the scope of the Review or any other aspect of the business of the Respondent.

D. Terms of the Consultant's Retention

1. The selection of the Consultant shall be made promptly following the approval of the Settlement Agreement, but in any event by no later than January 31, 2010, by mutual agreement between the Respondent and IIROC.

2. The Consultant shall enter into a confidentiality and non-disclosure agreement satisfactory to the Consultant, the Respondent and IIROC (all acting reasonably), and the Consultant shall then have reasonable access to all of the Respondent's books and records which reasonably relate to the scope of the Review and the ability to meet privately with the Respondent's personnel who are reasonably relevant to the Review. The Respondent shall instruct and otherwise encourage its officers, directors, and employees to cooperate fully with the Review conducted by the Consultant, and inform its officers, directors, and employees that failure to cooperate with the Review may be grounds for disciplinary action.

3. The Consultant shall have the right, as reasonable and necessary in his or her judgment, to retain, at the Respondent's expense, lawyers, accountants, and other persons or firms, other than officers, directors, or employees of the Respondent, to assist in the discharge

of the Consultant's obligations. The Respondent shall pay all reasonable fees and expenses (as reasonably documented) of any persons or firms retained by the Consultant.

4. The Consultant shall make and keep notes of interviews conducted, and keep a copy of documents gathered, in connection with the performance of his or her responsibilities.

5. The Consultant’s reasonable compensation and expenses shall be borne exclusively by the Respondent.

IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

IIROC NOTICE

Enforcement Notice
Decision

Please distribute internally to:
Legal and Compliance

Contact:
Alex Popovic
Vice President – Enforcement
416.943.6904
apopovic@iiroc.ca

Jeff Kehoe
Director, Enforcement Litigation
416.943.6996
jkehoe@iiroc.ca

09-0368
December 21, 2009

IN THE MATTER OF Credential Securities Inc. – Settlement

SUMMARY

On December 21, 2009, a Hearing Panel of the Investment Industry Regulatory Organization of Canada (IIROC) accepted a Settlement Agreement between the IIROC Staff and Credential Securities Inc. (the "Respondent"). Pursuant to the Settlement Agreement, the Respondent admitted that:

> In or about 2006 and 2007, the Respondent did not take adequate steps to ensure that its Approved Persons understood the complexities of the third-party asset-backed commercial paper (ABCP) product made available for purchase to its retail clients and the consequent risks (including systemic risks and counterparty risks) related to those products and, in not taking these adequate steps, did not ensure that the purchase of third-party ABCP was appropriately understood by its clients, contrary to Investment Dealers Association Regulation 1300.1(a) (now IIROC Dealer Member Rule 1300.1(a)).

Pursuant to the Settlement Agreement, the Hearing Panel imposed the following penalty against the Respondent:

(a) a fine in the amount of $200,000 (inclusive of costs); and

(b) an order to retain an independent consultant to verify the remedial actions already taken relating to due diligence practices and procedures relating to fixed income securities.

IIROC formally initiated the investigation into the Respondent's conduct on May 28, 2008. The alleged violation occurred when the Respondent was a member firm of the Investment Dealers Association (IDA). The Respondent is currently an IIROC dealer member.

The Hearing Panel will issue its Reasons and Decision on a later date. The approved Settlement Agreement is available at: http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=EB3B79D942FF403DBF7AE9D8252F6EC5&Language=en

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

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THE RULES OF THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

AND

THE BY-LAWS OF THE INVESTMENT DEALERS ASSOCIATION OF CANADA

AND

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THE DISTRIBUTION OF THIRD-PARTY ABCP

30. In general, third-party ABCP was distributed to investors through a dealer group (the "dealer syndicate"). Typically, one member of the dealer syndicate would be appointed as lead dealer. Some of the lead dealer's daily duties included the allocation of ABCP notes to dealer syndicate members and setting the yield in consultation with the conduit sponsor.

31. The dealer syndicate members maintained trading lines, up to a credit limit, for third-party ABCP mainly to provide a market-making function. Dealer syndicate members would typically purchase third-party ABCP that was not sold at the end of a trading day. These positions were to be held on a short-term basis, typically overnight, until the notes could be sold to investors. Dealer syndicate members also purchased third-party ABCP from clients in the secondary market. While the dealer syndicate was under no obligation to purchase any third-party ABCP, they did so to provide a secondary market, maintain liquidity in the market and/or as a service to their clients. Dealer syndicate members other than the lead

dealer also had the option to turn back ABCP to the lead dealer if they were unable to sell their daily allocation, but this was not their ordinary practice.

32. Third-party ABCP traded in a dealer market, also known as an over-the-counter ("OTC") market. Unlike an auction market or exchange, the OTC market was not transparent to investors. As such, investors relied mainly upon the dealer syndicate for information relating to issues such as pricing, market depth and market volume.

33. The primary information that dealers disclosed to investors was the yield and credit rating of third-party ABCP.

THE MARKET FREEZE

34. On August 13, 2007, a number of Canadian third-party ABCP conduits including the Coventree conduits were unable to sell new ABCP to fund the repayment of maturing ABCP. Many of the conduits' liquidity providers did not agree that the conditions for liquidity funding had occurred and refused to provide liquidity to the affected conduits.

35. As of August 13, 2007, the third-party ABCP market totaled approximately $35 billion, with Coventree conduits representing approximately 46 percent of the value of the third-party ABCP market.

36. On August 16, 2007, a consortium representing banks, asset providers and major ABCP holders agreed to take steps to establish normal operations in the ABCP market. This agreement was known as the Montreal Proposal.

37. A Pan-Canadian Investors Committee, including investors who were signatories to the Montreal Proposal plus other significant holders, was established to oversee the restructuring of third-party ABCP. It put forward the Plan of Compromise and Arrangement (the "Plan"), which was implemented on January 21, 2009.

38. Pursuant to the Plan, holders of the eligible third-party ABCP had their short-term notes exchanged for longer term notes to match more closely the maturity dates of the underlying assets.

THE RESPONDENT'S OFFERING OF THIRD-PARTY ABCP

39. The Respondent is a registered dealer with a predominantly retail client base. The Respondent is not and never was a sponsor, ABCP syndicate member dealer, asset or liquidity provider, active trader or investor in ABCP or otherwise involved in the third-party ABCP market, other than in acting as dealer for clients who wished to invest in ABCP. As such, at the relevant time, the Respondent did not have access to or detailed knowledge of certain of the information regarding third-party ABCP discussed above, including the information in paragraphs 18, 19, and 22.

40. At all material times, the Respondent was an introducing broker and had a carrying broker agreement in place with another Non-syndicate Member firm that sold third-party ABCP. While the Respondent's money market activity was handled by the carrying broker's bond desk, the Respondent's decision to make products available to its retail clients remained with it.

41. The Respondent first made third-party ABCP available to its retail clients in or about June 2006.

42. The majority of third-party ABCP made available by the Respondent to its clients was SIT III. By August 2007, SIT III held only non-traditional assets.

43. The Respondent's Product Review Committee ("the Committee") was a subcommittee of its Investment Risk Committee. The Committee was made up of senior individuals including certain department heads. Included on the Committee were individuals with expertise in compliance and financial markets. The Committee had the responsibility to create guidelines for product approval based on risk criteria. During the material time, products that were rated by a recognized bond rating agency as investment grade BBB or better were pre-approved by the Committee for distribution.

44. Since third-party ABCP met the Respondent's product approved threshold, they automatically became eligible as part of the Respondent's pool of fixed-income products available for purchase by clients through the Respondent's Approved Persons.

PRODUCT KNOWLEDGE

45. The Respondent did not use adequate due diligence in order to learn and remain informed that there were additional complexities relating to the third-party ABCP products that were made available to retail clients and the consequent risks (including systemic risks and counterparty risks) related to those products. The Respondent relied primarily on the credit rating provided by DBRS as the basis for making these products available.

46. More specifically, the Respondent failed to take adequate steps to ensure that its Approved Persons involved in the sale and distribution of third-party ABCP to retail clients understood the complexities and risks inherent in the product arising out of :

- The basic structure of ABCP and the roles of the various entities (sponsors, issuer, trustee, asset providers);
- The nature and composition of the underlying assets;
- The lack of transparency relating to the underlying assets and liquidity agreements; and
- The nature and limitations of the liquidity facilities.

47. Where Approved Persons had questions about third-party ABCP, they had access to the bond desk of the carrying broker through the internet, e-mail and in some circumstances

telephone. The Respondent relied upon the carrying broker for information relating to third-party ABCP.

48. Staff interviewed several of the Respondent's retail advisors who revealed that, except for basic information relating to term, return and rating, they knew very little about the complexities of the ABCP product and the consequent risks (including systemic risks and counterparty risks) related to the product. Advisors based their investment recommendations on the rating, return and term of the product as well as any information they received from the carrying broker's bond desk.

49. Without a full understanding of the complex nature of third-party ABCP, certain Approved Persons were representing the product to their clients as a safe and secure investment that was similar to a T-bill, Guaranteed Investment Certificate or a term deposit.

50. Under its relief program, the Respondent returned to the vast majority of its retail clients full face value plus interest and costs of up to $1 million in exchange for the Notes issued following the restructuring of the third-party ABCP market.

51. Since the time when the issues surrounding the third-party ABCP became known, the Respondent proactively undertook an examination of and has instituted several changes to its procedures and systems to strengthen the review of complex fixed income securities that are traded by its retail clients and has made additions to its risk monitoring personnel. The Respondent is in the process of instituting additional training modules for its Approved Persons regarding due diligence practices, fixed income structured products and is taking other appropriate steps.

IV. CONTRAVENTIONS

52. In or about 2006 and 2007, the Respondent did not take adequate steps to ensure that its Approved Persons understood the complexities of the third-party ABCP product made available for purchase by its retail clients and the consequent risks (including systemic risks and counterparty risks) related to those products and, in not taking these adequate steps, did not ensure that the purchase of third-party ABCP was appropriately understood by its clients, contrary to Regulation 1300.1(a).

V. TERMS OF SETTLEMENT

53. IIROC and the Respondent agrees to the following terms of settlement:

    (i) A fine in the amount of $200,000 (inclusive of costs); and

    (ii) The retention of an independent consultant in accordance with Schedule A of this Settlement Agreement.

54. Unless otherwise stated, any monetary penalties and costs imposed upon the Respondent are payable immediately upon the effective date of the Settlement Agreement.

55. Unless otherwise stated, any suspensions, bars, expulsions, restrictions or other terms of the Settlement Agreement shall commence on the effective date of the Settlement Agreement.

VI. STAFF COMMITMENT

56. If the Hearing Panel approves this Settlement Agreement, Staff, the Ontario Securities Commission and Autorité des marchés financiers will not commence any proceeding under applicable legislation and rules against the Respondent or any of its affiliates or their respective present or former directors, officers, employees or agents in relation to the facts set out in Part III of this Settlement Agreement.

AGREED TO by the Respondent at the City of Vancouver in the Province of British Columbia, this __17th__ day of December, 2009.

Credential Securities Inc.
RESPONDENT

_____
WITNESS

Per:_____
DOCE TOMIC
President & Chief Executive Officer

AGREED TO by Staff at the City of Toronto in the Province of Ontario, this 17th_ day of December, 2009.

_____
WITNESS

_____
TAMARA BROOKS
Enforcement Counsel on behalf of
Staff of the Investment Industry
Regulatory Organization of Canada

WITNESS

ELSA RENZELLA
Enforcement Counsel on behalf of
Staff of the Investment Industry
Regulatory Organization of Canada

ACCEPTED at the City of Vancouver in the Province of British Columbia, this 21st day of December, 2009, by the following Hearing Panel:

Per: _____
Panel Chair

Per: _____
Panel Member

Per: _____
Panel Member

SCHEDULE "A" – TERMS OF REFERENCE FOR COMPLIANCE REVIEW

Credential Securities Inc. (the "Respondent") agrees to retain an independent third-party Consultant to carry out a verification review concerning the Respondent's due diligence practices, policies and procedures relating to fixed income securities, subject to the terms set out below:

A. Remedial Steps Taken by the Respondent In Light of ABCP Market Disruption

After August 2007, the Respondent reviewed its policies and procedures in connection with its fixed income business particularly in relation to third-party ABCP and took the following remedial actions:

a. reviewed and revised its Product Review Policy, practices and systems;
b. engaged additional personnel to assist with risk monitoring; and
c. commenced development of additional training modules for advisors on due diligence practices and fixed income structured products.

B. Terms of Reference for Engagement of the Consultant

1. The agreement between the Respondent and the Consultant ("Agreement") shall provide that the Consultant will conduct a verification review of the implementation of the remedial actions outlined in A above insofar as they relate to:

   a. The Respondent's compliance and oversight functions concerning its sales with respect to fixed income securities made available to clients;

   b. any committees or other mechanisms established to review and approve new fixed income securities made available to clients and changes to those securities;

   c. the training of the Respondent's staff concerning fixed income securities; and

   d. the Respondent's procedures regarding staff compliance with the foregoing.

   (collectively, the "Verification Review").

C. The Consultant's Reporting Obligations

1. The Consultant shall issue a draft report concerning its Verification Review to the Respondent and IIROC within 3 months of its appointment. The Consultant may request the opportunity to present its draft report to the Board of Directors of the Respondent.

2. The Consultant shall engage with the Respondent in discussions regarding the draft report with a view to reaching consensus and finalizing the report within 1 month of the delivery of its draft report. If requested by the Consultant, the Consultant will be

provided with an opportunity to present its final report to the Board of Directors of the Respondent, and may explain any areas of disagreement with management of the Respondent.

3. The Consultant will deliver its final report to the Respondent and to IIROC.

4. The Consultant's report shall include a description of the Verification Review performed and whether the remedial actions taken by the Respondent conforms with the applicable requirements of Dealer Member Rules 1300.1 and 2500, and IIROC notice 09-0087 entitled Best Practices for Product Due Diligence as those Rules and Notice apply to the subject matter of the Verification Review in Section B(1) above , and if not, the Consultant's recommendations for any changes to those remedial actions that the Consultant reasonably deems necessary.

5. The Respondent will, within 60 days after receipt of the Consultant's report, advise IIROC of a timetable to implement the recommendations contained in the Consultant's report, provided however, that in the event that the Respondent disagrees with or wishes to adopt other actions, policies or procedures in lieu of any of the Consultant's recommendations, the Respondent shall so advise IIROC and provide its reasons for its position and any alternative actions, policies or procedures the Respondent intends to adopt.

6. The Respondent shall certify to IIROC, by certificate executed on its behalf by each of the CEO, the UDP and the CCO of the Respondent and the Chair of the Board of Directors of the Respondent that the Respondent has implemented those recommendations of the Consultant or other actions, policies or procedures which it has agreed to adopt, promptly following such implementation.

7. For greater certainty, the terms of this Verification Review do not limit in any respect the authority of IIROC to undertake, as part of their normal course audit activities, a review of all matters within the scope of the Verification Review or any other aspect of the business of the Respondent.

D. Required Terms of Agreement with Consultant

1. The selection of the Consultant shall be made promptly following the approval of the Settlement Agreement, but in any event by no later than January 31, 2010, by mutual agreement between the Respondent and IIROC.

2. The Consultant shall have reasonable access to all of the Respondent's books and records and the ability to meet privately with the Respondent's personnel. The Respondent shall instruct and otherwise encourage its officers, directors, and employees to cooperate fully with the Verification Review conducted by the Consultant, and inform its officers, directors, and employees that failure to cooperate with the Verification Review may be grounds for disciplinary action.

3. The Consultant shall make and keep notes of interviews conducted, and keep a copy of documents gathered, in connection with the performance of his or her responsibilities, copies of which will be made available to the Respondent and IIROC.

4. The Consultant's reasonable compensation and expenses shall be borne by the Respondent.