

## **RULE B- 14 INSTALMENT RECEIPT OPTIONS**

This Rule B-14 is applicable only to American Style Options where the Underlying Interest is Instalment Receipts evidencing shares of a corporation (an "Instalment Receipt"). Such Options are referred to in this Rule B-14 as "Instalment Receipt Options".

### **Section B-1401 Definitions**

Notwithstanding Section A-102 for the purposes of Instalment Receipt Options the following terms shall have the meanings specified:

"Instalment Receipt" - An instalment receipt evidencing beneficial ownership of, and the obligation to pay the balance of the purchase price on, a share of a corporation.

"Underlying Interest" - Instalment Receipts meeting the criteria described in this Rule.

"Unit of Trading" - 100 units of the Underlying Interest, unless otherwise designated.

### **Section B-1402 Approval of Underlying Instalment Receipts**

- (1) The Instalment Receipts underlying the Instalment Receipt Options shall be approved by the Board following the recommendation of one or more Exchanges. In approving underlying Instalment Receipts, the Board shall give due regard to the following factors:
  - (a) the underlying Instalment Receipts shall be characterized by a large number of outstanding units which are widely held and actively traded ;
  - (b) underlying Instalment Receipts shall be duly listed and posted for trading on an Exchange;
  - (c) underlying Instalment Receipts shall meet the requirements set forth in the agreements among the Exchanges and the Corporation.
- (2) No more than one Class of Options shall be approved for each class of Instalment Receipts unless the Board considers it necessary or advisable, as a temporary measure, that there be one or more additional Classes of Options for such class of Instalment Receipts.

### **Section B-1403 Criteria for Eligibility of Instalment Receipt Options**

- (1) In considering whether any Instalment Receipt should be approved as the Underlying Interest of a Instalment Receipt Option, the Board shall ensure that prior to being approved as an Underlying Interest the Instalment Receipt meets all of the following criteria:
  - (a) no less than 10,000,000 Instalment Receipts in the public float are held by persons who are not "insiders" under the securities laws of any of the provinces of Canada.
  - (b) the final prospectus for the Instalment Receipt details that payment for the shares evidenced by the Instalment Receipts is to be made in no more than two (2) instalments.

- (c) the Market Price of the Instalment Receipt is at least \$5.00 per Instalment Receipt.
  - (d) the issuer whose securities are evidenced by the Instalment Receipts should have common shares and, if applicable, non-voting equity shares, subordinate or restricted voting equity shares and preferred shares outstanding that have an aggregate value of \$500,000,000 or more.
- (2) The criteria set forth in subsection (1) of this Section B-1403 may be amended from time to time by agreement between the Corporation and the Participating Exchanges.

#### **Section B-1404 Deficiency Criteria for Instalment Receipt Options**

- (1) No new Series of a Class of Instalment Receipt Options which is already listed may be opened for trading if any one of the following conditions occur with respect to the Underlying Interest:
- (a) less than 10,000,000 shares of the class or series evidenced by the Underlying Interest are held by persons who are not "insiders" under the securities laws of any of the provinces of Canada;
  - (b) the Underlying Interest is no longer listed on an Exchange;
  - (c) the issuer of the shares evidenced by the Underlying Interest or one of its significant subsidiaries has defaulted in the payment of any dividend or sinking fund instalment on preferred or common shares, or in the payment of any principal, interest or sinking fund instalment on any indebtedness for borrowed money, or in the payment of rentals under long-term leases, and such default has not been cured within six (6) months of the date on which it occurred;
  - (d) the issuer of the shares evidenced by the Underlying Interest has failed to make timely reports as required by the by-laws or rules of the Canadian exchanges upon which the Underlying Interest is listed; or
  - (e) the issuer whose shares are evidenced by the Underlying Interest has a market capitalization including all common and, if applicable, non-voting, subordinate or restricted voting equity shares and preferred shares, which has been less than \$500,000,000 on a majority of Business Days in the preceding nine-month period.
- (2) In exceptional circumstances (by agreement between the Corporation and the Participating Exchanges) and in the interest of maintaining a fair and orderly market or for the protection of investors, an Exchange may open additional Series of Options with respect to any Underlying Interest which is deficient under one or more of the criteria set forth in subsection (1) of this Section B-1404.
- (3) The criteria set forth in subsection (1) of this Section B-1404 may be amended from time to time by agreement between the Corporation and the Participating Exchanges.

#### **Section B-1405 Procedure for Assessing the Effect of Listing Changes on Instalment Receipts Options Eligibility**

- (1) **Original or Supplementary Listings**

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If a newly-established company has acquired a listed company, the trading record and history of the predecessor company may be used to test the options eligibility of the new company.

(2) **Name Changes**

Corporate name changes have no effect on listed issues option eligibility. All statistics and history of the predecessor company continue to apply to the issues under the new corporate name.

(3) **Substitutional Listings**

When a listing change, which is the result of a merger or acquisition involving the issuance or acquisition of listed shares has occurred, all listed issues connected with the change are reviewed. No decision to change the option status of a listed issue will occur until after the merger or acquisition is completed. The general process which applies is as follows:

- (a) On receipt of the notice of corporate change or following the closing date of a share purchase offer, it is confirmed that at least one predecessor company has Instalment Receipt Options currently listed on a Participating Exchange, and these Instalment Receipt Options are not at or past the date where no new series may be listed if they are classified as delistable, nor is the underlying security for these Instalment Receipt Options classified as deficient according to Section B-1404 of the rules of the Corporation.
- (b) On receipt of the notice of corporate change or following the closing date of a share purchase offer, the secretaries of the companies will be requested to confirm that the number of actual and beneficial shareholders and the number of publicly held shares of the surviving company exceeds the option criteria in Section B-1403. No such confirmation is required for an offeror already designated as options eligible.
- (c) It is confirmed that the market price of the Instalment Receipts of the surviving company are trading at, or above, \$5.00 per receipt.
- (d) It is confirmed that, prior to the announcement of the take-over, merger or re-organization, the sum of the market capitalizations (including all common and preferred shares) of the predecessor companies was not less than \$500,000,000.
- (e) It is confirmed that the securities of the resultant company, evidenced by the Instalment Receipts are listed on an Exchange.

**Section B-1406 Failure to Deliver**

If the Clearing Member required to make delivery under Section B-403 fails to complete such delivery by the Exercise Settlement Date, the Corporation may purchase the undelivered Underlying Interest in the best available market for the account of the receiving Clearing Member. If the Underlying Interest is not available, the Corporation will require the delivering Clearing Member to settle by cash, determined by the closing Market Price on the day of exercise multiplied by the number of units.

## Section B-1407 Adjustments in Terms

- (1) Whenever there is a dividend, stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any underlying security, or a merger, consolidation, dissolution or liquidation of the issuer of any underlying security, the number of Instalment Receipt Options, the Unit of Trading, the Exercise Price and the underlying security, or any of them, with respect to all outstanding Instalment Receipt Options open for trading in that underlying security may be adjusted in accordance with this Section B-1407.
- (2) Subject to paragraph 10 of this Rule B-1407, all adjustments made pursuant to this Section B-1407 shall be made by the Adjustments Committee. The Adjustments Committee shall determine whether to make adjustments to reflect particular events in respect of an underlying security, and the nature and extent of any such adjustment, based on its judgement as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers of Instalment Receipt Options on the underlying security, the maintenance of a fair and orderly market in Instalment Receipt Options on the underlying security, consistency of interpretation and practice, efficiency of exercise settlement procedures, and the co-ordination with other clearing agencies of the clearance and settlement of transactions in the underlying security. The Adjustments Committee may, in addition to determining adjustments on a case-by-case basis, adopt statements of policy or interpretation having general application to specified types of events. Any such statements of policy or interpretation shall be disseminated to all Clearing Members, Exchanges and securities regulatory authorities having jurisdiction over the Corporation. Every determination by the Adjustments Committee pursuant to this Section B-1407 shall be within the sole discretion of the Adjustments Committee and shall be conclusive and binding on all investors and not subject to review, other than review by securities and regulatory authorities having jurisdiction over the Corporation pursuant to applicable provisions of the respective statutes.
- (3) It shall be the general rule that there will be no adjustments to reflect ordinary cash dividends or distributions paid by the issuer of the security evidenced by an Instalment Receipt.
- (4) It shall be the general rule that in the case of any distribution made with respect to securities evidenced by an Instalment Receipt, other than cash distributions subject to paragraph (3) of this Section B-1407, if an adjustment is determined by the Adjustments Committee to be appropriate,
  - (i) the Exercise Price in effect immediately prior to such event shall be reduced by the value per Instalment Receipt of the distributed property, in which event the Unit of Trading shall not be adjusted, or
  - (ii) the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the securities evidenced by the number of Instalment Receipts represented by the Unit of Trading in effect prior to such adjustment, in which event the Exercise Price shall not be adjusted.

The Adjustments Committee shall, with respect to adjustments under this paragraph or any other paragraph of this Section B-1407, have the authority to determine the value of distributed property.

- (5) In the case of any event for which adjustment is not provided in any of the foregoing paragraphs of this Section B-1407, the Adjustments Committee may make such adjustments, if any, with respect to the Instalment Receipt Option affected by such event as the Adjustments Committee determines.
- (6) Adjustments pursuant to this Section B-1407 as a general rule shall become effective in respect of Instalment Receipt Options outstanding on the "ex-date" established by the Exchange or Exchanges on which the Underlying Instalment Receipt is traded. In the event that the "ex-date" for an Underlying Instalment Receipt traded on Exchanges differs from one Exchange to the other, the

Corporation shall deem the earliest date to be the "ex-date" for the purposes of this Section B-1407. "Ex-dates" established by any other exchange or exchanges on which an Underlying Instalment Receipt may be traded shall be disregarded.

- (7) It shall be the general rule that:
  - (i) all adjustments of the Exercise Price of an outstanding Instalment Receipt Option shall be rounded to the nearest \$.05, and all adjustments of the unit of trading shall be rounded down to eliminate any fraction, and
  - (ii) if the Unit of Trading is rounded down to eliminate a fraction, the adjusted Exercise Price shall be further adjusted, to the nearest \$.05, to reflect any diminution in the value of the Instalment Receipt Option resulting from the elimination of the fraction.
- (8) Notwithstanding the general rules set forth in paragraphs (3) through (7) of this Section B-1407 or which may be set forth as interpretations and policies under this Section B-1407, the Adjustments Committee shall have the power to make exceptions in those cases or groups of cases in which, in applying the standards set forth in paragraph (2) thereof the Adjustments Committee shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Adjustments Committee affirmatively determines to make an exception in a particular case or group of cases.
- (9) The Adjustments Committee shall consist of two designated representatives of each Exchange and one representative of the Corporation. The quorum for transacting business at any meeting of the Adjustments Committee shall be four representatives; one from each Exchange and one from the Corporation. The vote of a majority of the members of the Adjustments Committee in attendance at any meeting shall constitute the determination of the Adjustments Committee. The Adjustments Committee may transact its business by conference telephone. Notwithstanding the foregoing provisions of this paragraph, any representative of the Corporation or of an Exchange may designate any other representative of the Corporation or of such Exchange, respectively, to serve in his place at any meeting of the Adjustments Committee. In the event of such designation, the designee, for the purposes of such meeting, shall have all of the powers and duties under this Section B-1407 of the person designating him. Neither the Corporation nor any Exchange shall designate to serve on the Adjustment Committee, any person, who, to the knowledge of the self-regulatory organization designating such person, is the beneficial holder of a long or short position in Instalment Receipt Options as to which the Adjustment Committee is to make a determination.
- (10) In the event that the Adjustments Committee is unable to determine whether to make an adjustment in any particular case, the matter shall be referred to the Board for a determination.

## INTERPRETATIONS AND POLICIES

A cash dividend or distribution on a class of shares in an amount which does not exceed 10% of the market value (as of the close of trading on the trading day prior to the date on which such dividend or distribution is announced) of the class of shares evidenced by the Instalment Receipts (and not the market value of the Instalment Receipts themselves) will, as a general rule, be deemed to be "ordinary cash dividends or distributions" within the meaning of paragraph (3) of this Section B-1407. The Adjustments Committee will determine on a case-by-case basis whether other cash dividends or distributions are "ordinary cash dividends or distributions" or whether they are dividends or distributions for which an adjustment should be made.

Where the Adjustments Committee determines to adjust for a cash dividend or distribution, the adjustment shall be made in accordance with paragraph (6) of this Section B-1407.

Adjustments will not ordinarily be made to reflect the issuance of so-called "poison pill" rights that are not immediately exercisable, trade as a unit or automatically with the underlying security, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the underlying security, or are redeemed, the Adjustments Committee will determine whether an adjustment is appropriate.

Adjustments will not be made to reflect a take-over bid or issuer bid made for the underlying security, whether such offer is for cash, securities or other property. This policy will apply without regard to whether the price of the underlying security may be favourably or adversely affected by the offer or whether the offer may be deemed to be "coercive". Outstanding Instalment Receipt Options ordinarily will be adjusted to reflect a merger, amalgamation, arrangement or similar event that becomes effective following the completion of a take-over bid.

#### **Section B-1408 Delivery of Instalment Receipts After "Ex" Date**

- (1) When an Exercise Notice is properly tendered to the Corporation prior to the "ex-dividend" date (as fixed by an Exchange on which the Underlying Interest is listed) for a distribution that causes an adjustment to be made pursuant to the Rules, the delivering Clearing Member shall make delivery as required by such adjustment unless the delivering Clearing Member, the receiving Clearing Member and the Corporation otherwise agree.
- (2) When an Exercise Notice is properly tendered to the Corporation prior to the "ex-dividend" date for a distribution that does not cause an adjustment to be made pursuant to the Rules, and delivery of the Underlying Interest is made too late to enable the receiving Clearing Member to transfer the Underlying Interest into its name and to receive such distribution, the delivering Clearing Member shall, at the time of delivery, issue its cheque to the receiving Clearing Member for the amount of the distribution, which cheque shall be payable on the payment date of such distribution.
- (3) When an Underlying Interest is listed on more than one Exchange and differing "ex-dividend" dates are fixed by the Exchanges, the earliest date will be considered the "ex-dividend" date for purposes of this Section B-1408.

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