



IMPORTANT CHARACTERISTICS AND RISKS OF PARTICIPATING IN INTERACTIVE BROKERS CANADA FULLY-PAID SECURITIES LENDING PROGRAM

You should read this document and the *Interactive Brokers Master Securities Lending Agreement for Fully-Paid Lending* carefully before participating in IB's Fully-Paid Securities Lending Program.

Introduction

Interactive Brokers Canada Inc. ("IB") offers eligible customers the ability to lend out certain of their fully paid and excess margin securities to IB for on-lending to other IB customers or to other market participants who wish to use these shares for short selling or other purposes. **"Fully-paid securities"** are securities in your account that have been completely paid for. **"Excess-margin securities"** are securities that have not been completely paid for, but that represent the aggregate loan value and market value of each class or series of security required to be segregated as determined under IDPC Rule 4317(1) divided by the loan or market value, as the case may be, of one unit of the security. In this disclosure and in the relevant agreements, we collectively refer to fully paid and excess margin securities as "Fully-Paid Securities" or "Fully-Paid Shares". Lending out your Fully-Paid Shares may be a way to increase the yield on your portfolio, because some shares are in high demand in the securities lending market and borrowers are willing to pay for the use of your shares.

Stock Yield Enhancement Program

In the Stock Yield Enhancement Program, you permit IB to borrow any Fully-Paid Securities in your account and loan these securities out in the securities lending market. IB will have the discretion to initiate loans of your securities. You will not be asked to approve each loan before it is initiated, but you can sell your shares at any time or terminate your participation in the Program. IB will pay you interest on the cash collateral posted to your account to secure the loan. Ordinarily the interest rate IB pays you will approximate a percentage of the net income received by IB for lending your securities. IB's net income may be less than the gross income received by IB for

relending your securities because of certain deductions and charges, as explained below. IB may make certain assumptions in computing the net amounts.

Basic Mechanics of a Fully-Paid Lending Transaction

When the lending transaction takes place, your securities will be removed from your account. In return, IB will deposit cash collateral into your account to secure the amount of the loan. The current industry convention for the collateral calculation with respect to U.S. stocks is to multiply the rounded security price times the number of shares by 102%. IB marks-to-market all positions nightly to reflect changes in security prices and makes corresponding adjustments to the collateral. IB reserves the right to adjust to U.S. industry convention should that change or to raise or lower the collateral amount based on local laws or market custom outside the U.S.; however IB will never collateralize the stock loan for less than 100% of the value. For example, customer A has enrolled in the Program and IB has subsequently loaned 5000 shares of XYZ on behalf of this customer. XYZ's closing price is \$22.15. The cash collateral is calculated by rounding $\$22.15 * 1.02 = \22.59 rounded up nearest dollar which is \$23, making the collateral calculation $\$23 * 5000 = \$115,000$.

By allowing IB to borrow from you through the Stock Yield Enhancement Program, IB will be the counterparty borrower to all of the loans you make. That is, as a customer, you are not transacting directly with the securities lending market. You are transacting with IB, which may then transact on the relevant market. For all transactions in which you are lending your Fully-Paid Shares, IB will be the borrower and IB will be responsible for providing the collateral to you on stock loans and paying interest on such collateral.

Collateral Recourse Risk Resulting from the Application of the Bankruptcy and Insolvency Act (Canada) Including Lending Out All Fully-Paid Securities Held in One IB Customer Account

There is risk that in the event of a bankruptcy of IB under the Bankruptcy and Insolvency Act (Canada), in certain circumstances, participants of our fully paid lending program may have limited recourse to cash collateral reported in their statement of account. For example, such a risk of limited recourse to the cash collateral is heightened when all the fully-paid shares held in the IB account are lent.

Fully Paid Securities Lent under Interactive Brokers Canada Inc.'s Fully Paid Lending Activity are not eligible for the Investor Protection Fund (IPF) coverage.

Fully Paid Securities not lent under Interactive Brokers Canada Inc.'s Fully Paid Lending Activity and held at Interactive Brokers Canada Inc, as at the date of insolvency of Interactive Brokers Canada Inc. are eligible for the IPF coverage.

Securities Loaned Out by You Are Typically Used to Facilitate Short Sales

The type of securities that are generally attractive to borrowers in the securities lending market, and which generate the highest income potential, are "hard to borrow" securities. When you lend your Fully-Paid Securities, it is likely that such securities will be used to facilitate one or more short sales where the borrower is selling shares in hopes that the stock will decline in value (the short seller later re-purchases the stock to pay back the stock loan). Since you are holding the shares "long" in your account, the activity of short sellers potentially could affect the long-term value of your holdings.

NOTE: If you do not want your Fully-Paid Securities used to facilitate short sales, you should NOT participate in IB's Fully-Paid Securities Lending Program.

You Continue to Own Loaned Shares and Have Market Risk on Those Shares

When you lend your shares, you continue to own the shares and you continue to have the market exposure inherent in ownership of the shares (i.e., if the share price increases while you own the shares but are lending them out, your equity in the position will increase. If the price goes down, your equity will decrease).

You Can Sell Your Loaned Shares At Any Time

Even though you have loaned your shares out, you can sell those shares at any time, just like any other shares in your IB account. You do not have to wait for the shares to be returned to sell them. Even if the shares are not returned on time to settle your sale of the shares, IB will be responsible for settling the sale, not you, and you will receive the proceeds from the sale of the shares on the normal settlement date for the sale.

Loan Rates (and therefore the Interest Rate You Will Receive) Are Subject to Frequent Change and can go down (or up) by 50% or more

Rates for "hard to borrow" and other shares change frequently, even daily, in the securities lending market and this can reduce (or increase) the interest IB pays on your collateral. Likewise, IB may change the rate it pays you compared to the income that IB receives when it lends your securities to third parties. If you have permitted IB to borrow your Fully-Paid Securities through the Stock Yield Enhancement Program, you will not have direct control over when to initiate or terminate loans of specific shares (including based on rate changes). However, you can always terminate your participation in the program (which will terminate all of your lending transactions) if you are unhappy with the interest rates you are receiving or the nature or frequency of rate changes. Please note, though, that if you terminate your participation in the Stock Yield Enhancement Program, you may not be permitted to re-join the program, or you may have to wait a certain length of time to re-join.

Potential Adverse Tax Consequences from Receiving Cash Payments in Lieu of Dividends on Loaned Shares

Customer is entitled to receive the amount of all dividends and distributions made on or in respect of loaned securities. Payments on loaned securities are characterized as "payments in lieu of" or "manufactured" dividends. The tax consequences of these payments-in-lieu-of-dividends may differ from the tax consequences of the receipt of a dividend on the lent shares. Among the factors affecting this analysis is the borrower's tax residency and the tax residency of the company underlying the securities loan. IB may, but is not required to, recall loaned shares from the borrower prior to a dividend, so as to reduce potential negative tax consequences. IB may be required to withhold tax on payments in lieu of dividends and interest paid on the collateral unless an exception applies.

U.S. tax purposes - Payments in Lieu

Payments in lieu of dividends received by a U.S. taxpayer do not qualify for the preferential qualified dividend income rate and are taxed as normal ordinary income. This rule applies irrespective of the tax residency of the underlying company. On the other hand, payments in lieu of dividends on U.S. securities received by a non-U.S. taxpayer are treated in the same manner as dividends on U.S. securities. That is, 30% U.S. withholding tax is due unless Customer qualifies for a reduced rate of withholding under a U.S. income tax treaty.

Canadian tax purposes - Payments in Lieu

Payments in lieu of dividends on Canadian securities received by a Canadian taxpayer are treated as dividends on Canadian securities. The character of the payment does not change. Similarly, a payment in lieu of dividends on a Canadian security is treated as a dividend, to the extent required by Canadian law, if paid to a non-Canadian taxpayer. Such dividends may be subject to Canadian withholding tax at 25% unless reduced by a tax Treaty. Payments in lieu of dividends on U.S. securities are also reported as dividends (as foreign source income) to Canadian securities lenders.

For both U.S. and Canadian tax purposes, IB intends to treat interest paid on the collateral posted to secure the securities loan as interest. For non-Canadian resident customers, IB may be required to withhold tax on interest paid on the collateral unless an exception applies. Customer is responsible for evaluating the tax consequences of participating in IB's Fully-Paid Securities Lending Program and seeking the advice of a tax professional if needed.

Potential Adverse Tax Consequences from Liquidation of Cash Collateral

The collateral provided by IB provides you with high degree of credit-risk protection in that you are entitled to retain the cash collateral if IB fails to return the borrowed securities. Retaining the cash collateral will result in a taxable transaction and you may recognize gain or loss based on the difference between the cash received and the cost basis of your loaned securities. For Canadian tax purposes, however, your allowable loss from such a disposition of property may be limited.

Restriction on Access to Lent Securities on Demand

When an IB's Fully-Paid Securities Lending Program participant un-enrolls from the SYEP or attempts to transfer the loaned securities to another broker, there is a risk that Interactive Brokers may not receive the securities back in a timely manner from the borrower and there may be a delay in returning the loaned securities.

This risk does not exist when the IB's Fully-Paid Securities Lending Program participant sells the loaned securities in the market through IB because IB bears the settlement risk in that circumstance (i.e., the sale trade will settle in the customer's account on settlement day whether or not IB is able to make street-side settlement on that day).

IB is the Counterparty to All Fully-Paid Lending Transactions with You. IB or Its Affiliates May Earn a Spread in Rates and May Profit or Lose in Connection with the Transaction or Other Transactions in the Same Securities. IB May Pay Part of the Loan Income to Third Parties, Which Will Reduce the Rate You Receive for the Duration of the Loan.

IB will be the counterparty (borrower) when you lend your shares. Any transactions that IB may or may not do with the shares are completely independent of your loan transaction to IB. Thus, after IB borrows shares from you, IB may or may not then lend those shares in the marketplace or lend them through an affiliate or third party. Likewise, IB may terminate a loan with you and return shares to you while at the same time IB continues to lend shares of the same stock out to the marketplace. *In short: IB's obligation to you is to pay you interest on your cash collateral at the specified rate on ongoing loan transactions until such transactions are terminated by you or by IB. Nothing in the IB Fully-Paid Lending Program restricts IB's ability to conduct stock lending and borrowing transactions with third parties, who may profit or lose in connection with the transactions.*

IB may borrow shares from you and then lend those shares to one of its affiliates, for the affiliate's own purposes (including short selling). In Canada or the U.S., IB typically also uses an affiliate as a "conduit" to the securities lending markets. This means that IB may lend the shares to such the affiliate, which will then lend the shares out to other parties in the securities lending market.

IB or its affiliates or third parties may earn a "spread" on securities lending transactions with your stock. This means that the rate you receive from IB may be less than the rate IB or its affiliate receives from a third party (or that IB receives from the affiliate if the affiliate is the ultimate borrower) on those same shares. If IB's affiliate Timber Hill is acting as a conduit, there will be a minimum 5 basis point (0.05%) reduction in the interest rate you receive for the loaned shares compared to market rates.

IB may pay part of the net loan income it earns on shares borrowed from you to third parties such as your financial advisor or introducing brokers who may introduce your

account to IB. These payments may reduce the interest rate you receive for the entire duration of the loan.

There Is No Guarantee That You Will Receive the Best Loan Rates for Your Shares

The securities lending market is not a standardized or transparent market. Securities lending transactions generally take place "over the counter" rather than on organized exchanges where prices and transactions are transparent. There are no rules or mechanisms that guarantee or require that any given participant in the marketplace will receive the best rate for lending shares, and IB cannot and does not guarantee it will pay the highest rate for borrowing your shares. IB or its affiliates through which it conducts securities lending transactions may not have access to the markets or counterparties that are offering the most favorable rates, or may be unaware of the most favorable rates. As noted previously, IB or its affiliates or third parties may earn a "spread" on the rate, such that the rate you receive is worse than the rate IB or its affiliates receive.

There Is No Guarantee That Your Fully-Paid Shares Will Be Loaned Out

There is no guarantee that you will be able to lend (or that IB will want to or be able to borrow) your Fully-Paid Shares. There may not be a market to lend your Fully-Paid Shares at a rate that is advantageous, or IB may not have access to a market with willing borrowers. IB, or other IB customers or IB's affiliates, might have shares that may be loaned out that will satisfy available borrowing interest and, therefore, IB may not borrow shares from you. There is no rule or requirement, nor is there anything in the applicable agreements between you and IB, that requires IB to borrow shares from you or requires IB to place your interest in lending shares ahead of IB's own interests, or those of other IB customers or those of IB's affiliates. If IB is managing your lending transactions through the Stock Yield Enhancement Program, IB cannot and does not guarantee that all of your Fully-Paid Shares that possibly could be loaned out will be loaned out.

Loans May Be Terminated At Any Time By IB

When you lend your Fully-Paid Shares, the loan may be terminated and the shares returned to your IB account at any time for any reason. The loan may be terminated because a party that borrowed the shares from IB (after IB borrowed them from you) chose to return the shares, or because you or IB received a re-rate request and rejected the re-rate or did not respond to the re-rate request. IB also has the right to terminate its borrowing of shares from you even if IB continues to lend the same stock through a lending market. When the loan is terminated, shares will be returned to your account, the cash collateral will be removed from your account and IB will stop paying interest on the collateral. If you permit IB to borrow securities from you through the Stock Yield Enhancement Program, you will not have direct control over when to initiate or

terminate loans of specific shares. Please note, however, you can always terminate your participation in the program (which will terminate all of your lending transactions).

Selling Your Shares or Borrowing Against Them or Withdrawing Cash Collateral Beyond a Certain Amount Will Terminate the Loan Transaction

If you sell the Fully-Paid Shares you have lent out, or if you borrow against the shares or withdraw cash collateral (such that the securities become margin securities and are no longer fully-paid or excess margin securities), the loan will terminate and IB will cease paying interest on your cash collateral.

Commissions and Other Charges

If you permit IB to borrow securities from you through the Stock Yield Enhancement Program, IB will credit interest on your cash collateral daily. The rate may be changed from time to time in IB's sole discretion and different rates may apply between customers based on a variety of factors, including the size of the customers' loan portfolios, the types of Fully-Paid Securities available in the customers' accounts, and other factors.

As noted above, IB or its affiliates or third parties may also earn a "spread" on the rate, such that the rate you receive will be based on net income after deduction for charges by IB or its affiliates. If IB's affiliate is acting as a conduit, there will be a minimum 5 basis point (0.05%) reduction in the interest IB pays. Likewise, as noted, IB may pay part of the net income (for shares you lend) to third parties such as introducing brokers who may introduce your account to IB. These payments may reduce the interest rate you receive. You may always terminate your participation in the program if you are unhappy with the rates you are receiving.

Interest Treatment on Cash Collateral

The interest paid by IB under the Program is the only interest payment you will receive on the cash collateral to your account when you lend Fully-Paid shares to IB. The interest treatment on collateral may change from the above depending on the securities lending market and the collateral method. Please refer to the IB website.

Voting Rights

The borrower of securities (and not you, as lender) has the right to vote, or to provide any consent or to take any similar action with respect to the loaned securities if the record date or deadline for such vote, consent or other action falls during the term of the loan. As the lender of securities, if you are also an insider of the issuer of the loaned securities, you may have to take into consideration the possible application of insider trading or early warning requirements under applicable securities laws.