

13.1.2 IDA Amendment to By-law 18.14(d)(iii) - Registered Representatives and Investment Representatives

INVESTMENT DEALERS ASSOCIATION OF CANADA

AMENDMENT TO BY-LAW 18.14(D)(III) - REGISTERED REPRESENTATIVES AND INVESTMENT REPRESENTATIVES

I OVERVIEW

A Current Rules

By-law 18 deals with the requirements that Members must follow when employing registered representatives (RR) and investment representatives (IR). By-law 18.14 specifically deals with the circumstances under which the dual employment of an RR or IR is permitted. The By-law states that an RR or IR may have and continue in another gainful occupation so long as certain conditions are met, which include the Member acknowledging in writing to the Association that it is responsible for the supervision of such RR or IR and that it establishes and maintains procedures to ensure continuous service to clients and to address potential problems of conflict of interest. By-law 18.14(d) lists a number of specific dual employment prohibitions.

B The Issue

By-law 18.14(d) lists a number of exceptions to the general dual employment rule. By-law 18.14(d)(iii) specifically prohibits an RR or IR from being dually employed with a firm listed on a recognized stock exchange unless the firm is the parent company or subsidiary of the Member firm or unless such dual employment has been approved by the stock exchange on which the firm is listed. The By-law only requires this approval for companies listed on recognized stock exchanges and therefore excludes companies listed on over the counter bulletin boards. The Association has been informed by the TSX Venture Exchange, that they do not wish to issue such approvals as such letters are not part of their "regulatory role." As such the TSX Venture Exchange plans to eliminate Rule F.2.17 from their Rules and Trading Polices which states that such approval is required. As a result, By-law 18.14(d)(iii) in its current form has been made ineffective and an amendment to the By-law is required.

C Objective

It is the view of the Association that By-law 18.14(d)(iii) is unnecessary from a regulatory perspective and should be repealed. By-law 18.14 already contains adequate requirements to ensure that the dual employment of individuals does not present a conflict of interest and therefore we consider By-law 18.14(d)(iii) to be redundant. By-law 18.14 already contains other criteria by which an RR or IR must meet before they can be dually employed. Furthermore, the Association performs regular field audits of Member firms to ensure that they are aware of the outside business activities of their employees and address potential conflict situations.

D Effect of Proposed Rules

The proposed amendment would not only eliminate a redundant rule but would also eliminate a current rule inconsistency, as the current rule only requires such approvals for dual employment situations involving listed companies, thus excluding dual employment situations involving companies quoted on over the counter bulletin board markets. The amendment would also reduce time spent by firms in trying to obtain such approvals from the stock exchanges, which has become a frustrating and long process and will not longer be required when the TSX Venture Exchange removes their rule. Furthermore, other requirements already exist to ensure that such dual employment does not create a conflict of interest.

II DETAILED ANALYSIS

A Present Rules, Relevant History and Proposed Policy

The inclusion of a detailed analysis was not considered necessary for this housekeeping rule amendment.

B Issues and Alternatives Considered

No other issues or alternatives were considered.

C Systems Impact of Rule

There is no systems impact.

D Best Interests of the Capital Markets

The Board has determined that the housekeeping rule is not detrimental to the best interests of the capital markets.

E Public Interest Objective

According to the IDA's Order of Recognition as a self-regulatory organization, the IDA shall, where requested, provide in respect of a proposed rule change "a concise statement of its nature, purposes and effects, including possible effects on market structure and competition". Statements have been made elsewhere as to the nature and effects of the proposals with respect to the proposed amendments.

The general purpose of the amendment is:

- for such other purposes as may be approved by the Commission.

The proposal does not permit unfair discrimination among customers, issuers, brokers, dealers, Members or others. It does not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes.

An assessment has been made that the proposed amendment is housekeeping in nature.

III COMMENTARY

A Filing in Other Jurisdictions

These proposed amendments will be filed for approval in Alberta, British Columbia, Ontario and Quebec and will be filed for information in Manitoba, Nova Scotia and Saskatchewan.

B Effectiveness

The proposed amendment will remove the inconsistency in the by-law that currently exists.

C Process

The change was precipitated by the need to streamline IDA by-laws where inconsistent and unnecessary requirements exist.

IV SOURCES

- IDA By-law 18.14
- TSX Venture Exchange Rules and Trading Policies F.2.17

V OSC REQUIREMENT TO PUBLISH FOR COMMENT

The Association has determined that the entry into force of the proposed amendments is housekeeping in nature. As a result, a determination has been made that these proposed rule amendments need not be published for comment.

Questions may be referred to:

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INVESTMENT DEALERS ASSOCIATION OF CANADA

**BY-LAW 18.14
REGISTERED REPRESENTATIVES AND INVESTMENT REPRESENTATIVES**

The BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. By-law 18.14 is amended by repealing subsection 18.14(d)(iii) as follows:
 - “(iii) With a firm listed on a recognized stock exchange unless such firm is the parent company or subsidiary of the Member firm with which the registered representative or investment representative is registered or unless such dual employment has been approved by the stock exchange on which the firm is listed.”

PASSED AND ENACTED BY THE Board of Directors this 12th day of April 2006, to be effective on a date to be determined by Association staff.