

## Chapter 13

# SRO Notices and Disciplinary Proceedings

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### 13.1.2 Notice of Commission Approval – Amendments to IDA By-law No. 3 Regarding Entrance, Annual and Other Fees

#### THE INVESTMENT DEALERS ASSOCIATION (IDA) NOTICE OF COMMISSION APPROVAL AMENDMENTS TO IDA BY-LAW NO. 3 REGARDING ENTRANCE, ANNUAL AND OTHER FEES

The Ontario Securities Commission approved amendments to IDA By-law No. 3 regarding the Entrance, Annual and Other Fees. In addition, the Alberta Securities Commission approved and the British Columbia Securities Commission did not object to the amendments. The proposal prescribes quarterly billing of the annual fees for the IDA. The amendments are housekeeping in nature. The description and a copy of the amendments are contained in Appendix "A" and Appendix "B" respectively.

## APPENDIX "A"

### INVESTMENT DEALERS ASSOCIATION OF CANADA HOUSEKEEPING AMENDMENTS TO BY-LAW NO. 3 REGARDING ENTRANCE, ANNUAL AND OTHER FEES

#### I OVERVIEW

##### A -- Current Rules

The Association currently has rules covering a variety of dues, fees, assessments, other charges and collections on behalf of other parties. In accordance with by-law 3.3, the annual fees are currently billed semi-annually.

##### B -- The Issue

Currently the IDA's Members' fees are approved as part of the budget process and are therefore a stable source of revenue. However, there are significant fluctuations to the IDA's cash outflows. The IDA, from a cash management perspective, would benefit from a move to quarterly invoicing of Members' fees. This would smooth out the revenue stream, with the added benefit of spreading out the payment impact for smaller Members. The proposed amendment would allow the IDA to lower its cash inflow concentration from twice a year to four times a year thereby better aligning its cash inflows with its cash outflows.

##### C -- Objective

The objective is to align cash inflows more closely with cash outflows and spread out the payment load for the smaller Members.

##### D -- Effect of Proposed Rules

The proposed amendments will have no effect on the market structure. It will spread out the payments for the benefit of the smaller members. There will be a minimal positive impact on interest costs for members and no impact on non-members. The proposed amendments will have no effect on competition. There will be a small additional administrative burden imposed as a result of the additional two billings a year. However, it is believed that this additional burden is outweighed by the benefits derived from the more frequent billings.

#### II DETAILED ANALYSIS

##### A -- Present Rules, Relevant History and Proposed Policy

The current rules call for the annual fee to be paid in two payments within 30 days of billing. By-law 3.3 specifies that Member fees must be paid semi-annually and specifies the dates by which they must be paid. By-law 3.7 lists specific dates by which payment of the annual fee billings must be made by members after which notification by the Association Secretary requesting payment is to take place. The dates specified are currently semi-annual dates in accordance with the billings as set forth in by-law 3.3. As

such, by-law 3.7 must be amended to reflect quarterly dates.

##### B -- Issues and Alternatives Considered

Currently the IDA's Members' Fees are approved as part of the budget process and are therefore a stable source of revenue. There are significant fluctuations to the IDA's cash outflows. The IDA, from a cash management perspective, would benefit from a move to quarterly invoicing of Members' Fees. This would smooth out the revenue stream and provide the added benefit of spreading out the payment impact for smaller Members. The proposed amendment would allow the IDA to lower its cash inflow concentration from twice a year to four times a year aligning its cash inflows more closely with its cash outflows.

The actual dates in the proposed amendment are not strictly quarterly but are separated by 61, 61 and 92 days. The first payment of the next year will be 152 days after the final payment for the current year. This has been done to ensure that changes in cash flow resulting from the proposal do not adversely affect the IDA's ability to manage its cash flows over the course of the year.

Monthly invoicing was considered as an alternative but it was determined that the additional administrative impact on both the Association and its members outweighed any benefits derived from this alternative.

##### C -- Comparison with Similar Provisions

The Mutual Fund Dealers Association by-law 4.14 currently prescribes the billing of its annual fee to be conducted quarterly.

##### D -- Systems Impact of Rule

There will be minimal impact on systems.

##### E -- Best Interests of the Capital Markets

The Board has determined that the change in invoice frequency is not detrimental to the best interests of the capital markets.

##### F -- Public Interest Objective

The proposal is designed to more closely align the cash inflows of the Association with its outflows.

#### III COMMENTARY

##### A -- Filing in Other Jurisdictions

These proposed amendments have been filed for approval in Alberta, British Columbia and Ontario, and have been filed for information in Nova Scotia and Saskatchewan.

##### B -- Effectiveness

An assessment of the effectiveness of the proposed rules in addressing the issues is discussed above.

**C -- Process**

The Audit Committee and Executive Committees have approved the proposal.

**IV SOURCES**

Mutual Fund Dealers Association by-law 4.14

**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 this proposed rule amendment need not be published for comment.

**APPENDIX "B"**

**HOUSEKEEPING AMENDMENTS TO BY-LAW NO. 3 REGARDING ENTRANCE, ANNUAL AND OTHER FEES**

**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:

By-law No. 3 is amended as follows:

**1. By repealing and replacing By-Law 3.3 with the following:**

"3.3 The first quarter of such annual fee shall be paid in advance by each Member not later than the first of June in each year and the second quarter of such annual fee shall be paid in advance by each Member not later than the first day of August and notice of the first and second quarters of the annual fee then payable shall be mailed to each Member on or about the next preceding first of May. The third quarter of such annual fee shall be paid in advance by each Member not later than the first of October in each year and the final quarter of such annual fee shall be paid in advance by each Member not later than the first day of January in each year and notice of the third and fourth quarters of the annual fee then payable shall be mailed to each Member on or about the next preceding first of September. If an applicant for Membership is approved by the Board of Directors at any time between September 30 and December 31, both inclusive, in any year, the annual fee for the balance of the fiscal year shall be one-half of the annual fee, and if between January 1 and March 31, both inclusive, the annual fee for the balance of the fiscal year shall be one-quarter of the annual fee."

**2. By repealing and replacing By-Law 3.7 with the following:**

"3.7. If the first quarter of the annual fee of a Member has not been paid by the first day of July, or, if the second quarter of such annual fee has not been paid by the first day of September or, if the third quarter of such annual fee has not been paid by the first day of November or, if the fourth quarter of such annual fee has not been paid by the first day of February in any year, or the amount assessed upon any Member pursuant to By-law 3.5, or the amount of any change in membership status fee required pursuant to By-law 3.6 has not been paid within thirty days after the Member has received written notification thereof from the Secretary, the Secretary shall, by registered mail, request the Member to pay the same and draw the Member's attention to the provisions of this By-law 3.7. If the entire amount owing by the Member has not been paid within thirty days from the date the Secretary has mailed

the request, the Secretary shall notify the Board of Directors to this effect and the Board of Directors may, in its discretion, terminate the Membership of the Member in default. If the Board of Directors decides to terminate the Membership of a Member pursuant to the provisions of this By-law 3.7, the Secretary will be requested to notify the Member, by registered mail, of the decision of the Board of Directors. A former Member whose Membership has been terminated pursuant to the provisions of this By-law 3.7 shall cease to be entitled to exercise any of the rights and privileges of Membership but shall remain liable to the Association for all amounts due to the Association from the former Member.”

**PASSED AND ENACTED BY THE** Board of Directors this 22<sup>nd</sup> day of June 2003, to be effective on a date to be determined by Association staff.