

13.1.2 IDA Regulation 500 and Policy No. 6, Part I. – Trader Registration

INVESTMENT DEALERS ASSOCIATION OF CANADA REGULATION 500 AND POLICY NO. 6, PART I. – TRADER REGISTRATION

I OVERVIEW

A -- Current Rules

Regulation 500 and Section A.5 of Policy 6, Part I set out the registration and proficiency requirements for traders in Canada. Individuals who meet these requirements are eligible for approval by the IDA in the category of Trader. Approval in this category does not on its own grant an individual access to an exchange's trading floor or system, however individuals who receive IDA approval are then eligible to apply directly to exchanges for access to their markets. Policy 6 Part IA.5 currently lists the following subcategories of Traders:

- Registered Representative – restricted (floor trader)
- Computer Assisted Trading System (“CATS”) Trader
- Commodity Floor Trader (“CFT”)

B -- The Issue

The trader environment has changed significantly since the original implementation of Policy 6 and Regulation 500. As a result, the current rules contain many out-dated references to types of traders and trading systems that are no longer in use by Canadian exchanges. In addition, the proficiency requirements set out in the IDA's Policy 6 relate to the old categories and do not provide for requirements for traders on the Bourse.

The exchanges currently administer recognition of proficiencies for access to their trading systems. The Association approves such persons in Trader categories so that the same “fit and proper” checks and standards are applied to Traders as to other approved persons. However, where an individual applies for an exemption from Trader proficiencies, she or he must do so to both the exchange and the Association.

C -- Objective

The objective of the rule change is update the existing trader categories and their related proficiency requirements and to eliminate duplication in the granting of proficiency exemptions.

D -- Effect of Proposed Rules

The proposed amendments are housekeeping in nature, and will align the Trader categories and requirements with those of the exchanges, reducing confusion as to which types of Trader category is required for each exchange trader type. Registration with an SRO is a pre-requisite to becoming a Trader; however, exchanges will also grant access to an individual with any registration category – including Registered Representative or Officer Trading, which require more courses than the Trader categories.

The proposed changes update the Trader subcategories to:

- Trader (Bourse de Montreal) - *to be used by the Montreal Exchange*
- Trader (TSX) - *to be used by the Toronto Stock Exchange*
- Trader (TSX VN) - *to be used by the TSX Venture Exchange*

The proposed changes remove the obsolete Commodity Floor Trader category, as this category is no longer a requirement for obtaining access to the Winnipeg Commodities Exchange.

The proposed rule will reduce duplication by eliminating the necessity for applicants for exemption from proficiency requirements to obtain exemptions from both the relevant exchange and the Association.

II -- DETAILED ANALYSIS

A -- Present Rules, Relevant History and Proposed Policy

In 1999, when Policy 6 was initially written, the Canadian exchanges had just undergone a series of changes. In 1997, the Toronto Stock Exchange (TSE), transferred the responsibility for granting SRO approval in all categories - including the Trader categories - to the IDA. The task of granting trader approval was then split between the two, with the IDA taking on the function of granting registration based on the proficiencies set by the TSE, and the TSE retaining the function of setting proficiency requirements and granting access to its electronic systems through the issuing of electronic passwords.

The category of "Trader (CATS)" had originally been developed for individuals wishing to access the TSE's Computer Assisted Trading System, an electronic trading system in place since the 1970's which functioned alongside the TSE's trading floor. In 2000, when the TSE's CATS system and trading floor were replaced with its current electronic trading system, the category of Trader (CATS) was used to register individuals wishing to access the new electronic system. This archaic terminology continues to be reflected in the IDA's Regulation 500.1 and Policy 6. The TSX's proficiency requirement as outlined in TSX Rule 4-405 is:

- (a) Experience of not less than 14 weeks with a Member's equities trading department; and
- (b) Successful completion of
 - (i) The Trader Training Course, and
 - (ii) The Canadian Securities Course and experience of not less than one year with a Member or experience of not less than two years with a Member if the person has not completed the Canadian Securities Course.

The Bourse currently registers and grants electronic access to all Quebec residents wishing to access the Montreal Automated System ("SAM"). However, individuals who reside outside of Quebec must be registered through the IDA and currently do so by requesting the category of *Trader - Floor Trader* which under Policy 6 requires successful completion of such floor examinations as may be required by the applicable exchange.

Proficiency requirements for Traders are also included in Section 7.2 of the Universal Market Integrity Rules ("UMIR"):

(1) No order to purchase or sell a security shall be entered by a Participant on a marketplace unless the Participant or the director, officer, partner or employee of the Participant entering the order or responsible for the order has:

(a) completed the Trader Training Course of the Canadian Securities Institute or such course, examination or other means of demonstrating proficiency in these Rules and Policies as may be acceptable to the Market Regulator of the marketplace on which the order is entered or the applicable securities regulatory authority; or

(b) received approval of an Exchange or QTRS for the entry of orders to the trading system of that Exchange or QTRS.

(2) A marketplace shall ensure that each Access Person with access to that marketplace is trained in such of these Rules and Policies as may be applicable to an Access Person.

The current proficiency requirements for SAM Traders, as outlined in ME Circular 090-2002, are

- For options traders: Options Trading At Bourse de Montreal Inc. / La negociation des options de Bourse de Montréal Inc.
- For futures contract and options on futures contract traders: Futures and Options on Futures Trading at Bourse de Montréal Inc./La Négociation des contrats a terme et des options sur contrats a terme de Bourse de Montréal Inc.
- For futures contracts and options on futures contracts foreign traders: Futures and Options on Futures Trading at Bourse de Montreal Inc. (US Version)

In 1999, the Winnipeg Commodity Exchange ("WCE") required individuals to obtain IDA approval in the category of Commodity Floor Trader in order to receive access to the WCE. This requirement has since been removed and there is currently no one registered in the capacity of Commodity Floor Trader. This category is now obsolete and can be removed from IDA By-laws. Rule 2000-11 of the Manitoba Commodity Futures Act does not contain a requirement for a Salesperson of a Futures Commission Merchant to receive SRO approval.

Rule 4-101 of the Canadian Trading and Quotation System Inc. ("CNQ") does not require SRO approval for its traders, but does require that the individuals who trade on the CNQ System be Ontario registrants and be approved as traders with the TSX or TSX Venture Exchange ("TSX VN")

The proposed policy replaces the current, outdated categories for traders in Regulation 500 with one category: "Trader."

- **Regulation 500.** The terms "Floor trader", "Computer Assisted Trading System ("CATS") trader", "Competitive Options Trader ("COT")" and "Commodity Floor Trader ("CFT")" be removed and replaced with "Trader"
- **Policy 6:** The course requirement for the TSX exchanges – the Trader Training Course – is left as is. This course is required under TSX rules and UMIR and is left in place in Policy 6 for ease of reference for Members and applicants. However, the proposed rule automatically recognizes exemptions granted by the exchanges to eliminate duplication. For Traders on the Bourse, the proposed policy accepts by reference the course requirements established by the Bourse so that any changes or exemptions will automatically be accepted under the revised Policy.

B -- Issues and Alternatives Considered

Consideration was given to removing the Trader Training Course and simply incorporating by reference the rules of the relevant exchange, so that TSX Group requirements would be accepted automatically. However, it was decided that because the Trader Training Course is already included in two levels of rule – TSX Group rules and UMIR – and as long as exchange exemptions were automatically recognized under the revised policy, the inclusion of the Trader Training Course as a requirement in the proposed policy would make the policy a ready reference source as to the exact requirement while eliminating any duplication of exemption procedures.

C -- Comparison with Similar Provisions

The TSX, TSX VN and Bourse de Montréal have set out proficiency requirements for traders in their rules and by-laws.

D -- Systems Impact of Rule

A minor adjustment will be required to the National Registration Database ("NRD") to add the new categories to the category selection table on NRD. As this requires only an update to an NRD table, this amendment can be scheduled to for the next scheduled NRD version release with no cost to the IDA.

E -- Best Interests of the Capital Markets

The Board has determined that the public interest Rule is not detrimental to the best interests of the capital markets.

F -- Public Interest Objective

The proposal is designed to:

- standardize industry practices where necessary or desirable for investor protection;

As a result, this rule change 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 Nova Scotia and Saskatchewan.

B -- Effectiveness

This proposed change will remove unnecessary duplication in the proficiency requirements for the categories of registration specific to Traders.

C -- Process

This issue was identified by the Registration department of the IDA. The following organizations were consulted in the drafting of these policy changes:

The Toronto Stock Exchange
The Winnipeg Stock Exchange
The Manitoba Securities Commission
Canadian Trading and Quotation System Inc. ("CNQ")

This proposal in concept was also presented to the following IDA Committee:

Education and Proficiency Committee

IV -- SOURCES

References:

- IDA Policy 6, Part I, 5 and IDA Regulation 500
- MSC Rule 2000-11, The Commodity Futures Act.
- TSX Rule 4-405
- ME Circular 090-2002
- Section 7.2, Universal Market Integrity Rules

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.

INVESTMENT DEALERS ASSOCIATION OF CANADA

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

Regulation 500 is repealed and replaced as follows:

“500.1. Application for approval as a Trader shall be made to the Association in such form as the Board of Directors may from time to time prescribe.

500.2. No person shall act as a Trader unless the person has satisfied the applicable proficiency requirements outlined in Part I of Policy No. 6.”

Policy 6, Part I, A. 5 is repealed and replaced as follows:

“The proficiency requirement for a Trader under Regulation 500.2 is:

- a) for a Trader on the Toronto Stock Exchange or TSX Venture Exchange, the Trader Training Course, unless an exemption is granted by either exchange or its market regulation services provider.
- b) for a Trader on the Bourse de Montreal, the proficiency requirements determined to be acceptable by Bourse de Montreal.”

PASSED AND ENACTED BY THE BOARD OF DIRECTORS this 26th day of June, 2005, to be effective on a date to be determined by Association staff.