Susan Wolburgh Jenah
Appointed President and CEO of New SRO

On December 20, 2006, the Boards of Directors of the Investment Dealers Association of Canada (IDA) and Market Regulation Services Inc. (RS) announced the appointment of Susan Wolburgh Jenah as President and Chief Executive Officer of the proposed new self-regulatory organization which is intended to succeed the IDA and RS.

Ms. Wolburgh Jenah was previously Vice Chair at the Ontario Securities Commission (OSC) and a member of its Board of Directors. She was a member of the Commission’s Adjudicative Committee, chaired adjudicative panels which hear and decide enforcement proceedings, regulatory policy matters and appeals of decisions of recognized self-regulatory organizations and Commission staff decisions, and represented the Commission on international committees. In addition to leading many legislative and policy initiatives, she served as a member of Ontario’s Five-Year Legislative Review Committee. Prior to her appointment as Vice Chair at the OSC, Ms. Wolburgh Jenah, who joined the Commission in 1983, was general Counsel and Director of International Affairs.

Ms. Wolburgh Jenah joined the IDA-RS Steering committee on February 19, 2007. Her appointment as President and CEO will take effect once the proposed organization begins operations.

The Steering Committee has been working closely with the Canadian Securities Administrators (CSA) and capital markets stakeholders to finalize the design and structure of the proposed new organization. Once this has been completed, formal approvals will be sought from the Boards of the IDA, RS, TSX and from IDA Member firms and the CSA. The new SRO will operate on a not-for-profit basis. Stakeholders will initially include all those currently regulated by the IDA or RS, including marketplaces that have contracted with RS for outsourced regulation services.
Member Regulation
Strategic Plan Update

The Member Regulation Division prepares a three year strategic plan which is reviewed and revised by senior management and approved by the Board annually.

The MR plan is aligned with the following corporate principles:

Mission: Protect investors and enhance the efficiency and competitiveness of the Canadian capital markets.

Mandate: Provide high quality and efficient member regulation services to Member firms through the adoption of policies and the administration of sales compliance, financial compliance and enforcement, resulting in high standards of business conduct, investor protection and a financially sound securities industry.

The mandate of Member Regulation is accomplished by the delivery of services to:

1. the public, by ensuring the integrity of the marketplace;
2. the provincial securities administrators, by doing so in an open, effective manner that puts the public interest first; and
3. the Members of the IDA, by delivering our services cost-effectively.

Objective: Be and be seen as Canada’s front line securities industry regulator by the investing public, regulators and Member firms.

Values:

- Integrity – We will conduct ourselves in an honest and ethical manner with the highest degree of professionalism.
- Diligence – We will be dedicated to carrying out our duties in a timely and reliable fashion.
- Accountability – We will be transparent in our process, ensure open communications with our stakeholders and take responsibility for our actions.

All Member Regulation strategic initiatives must fall into one of four categories:

1. Leading Risk Indicators
2. Risk Mitigation Tools
3. MR Continuous Improvement
4. Strategic Partnerships

Member Regulation staff are currently working on the following strategic initiatives:

Risk based review of registration applications
Leading Risk Indicator
Develop and implement a risk model that will more quickly and accurately identify higher risk registration filings to allow for the re-allocation of resources to higher risk filings. This initiative was commenced in Q2 05 and will be completed in Q4 07.

Improve the Risk Trend Report
Risk Mitigation Tool
Revise the financial compliance risk model to calculate the business risk for every Member business activity to ensure that 70 per cent of examiner time is allocated to high risk business activity, and revise the sales compliance risk model to better reflect the quantitative data collected by sales compliance. This initiative was commenced in Q2 06 and will be completed in Q2 07.

Chief Compliance Officer Certification Course and Exam
Risk Mitigation Tool
Develop and implement a course of study and examination for individuals seeking registration and approval as a Chief Compliance Officer at a Member firm to reduce overall industry compliance risks and provide an objective standard by which to assess fitness for registration. This initiative was commenced in Q2 05 and will be completed in Q3 07.

New Equity Margin Rates
Risk Mitigation Tool
Replace the current margin rate methodology for listed equity securities with a methodology that more accurately tracks market risk by measuring both price and liquidity risk. The new equity margin rate methodology was approved by the Canadian Securities Administrators (CSA) in Q3 06. The system to implement the new equity margin rates will be implemented in Q4 07.
Value at Risk Capital Adequacy Model

*Risk Mitigation Tool*

Grant Member firms who maintain sophisticated and/or significant proprietary inventories the option of using a value at risk (VaR) modeling approach to determine their position risk capital requirement. The calculated requirement using this approach will more precisely reflect the overall proprietary inventory market risk. The proposal to permit the option of using a VaR model was approved by the CSA in Q3 06. The IDA is in the process of hiring a risk management expert who will be responsible for the implementation of the rule, the establishment of VaR model adequacy standards and the development of a VaR model field examination program.

**Qualitative Benchmarks**

*MR Continuous Improvement*

Develop a quality assurance program and qualitative benchmarks that measure the quality of Member Regulation Programs. Phase I of this project was to implement a Quality Assurance Program for all MR departments. This was completed in Q1 07 with the completion of the Registration Quality Assurance Program. Phase II involves the development and implementation of qualitative benchmarks to complement the quantitative benchmarks implemented in Q1 02. Phase II will be completed in Q2 07.

**Improve Enforcement Timeliness**

*MR Continuous Improvement*

Implement an electronic document management system to better manage evidence in the investigation and prosecution process. This initiative was commenced in Q1 05 and will be completed in Q1 07.

**Electronic Access to Member Records**

*MR Continuous Improvement*

Provide examiners with more efficient and comprehensive access to Member records maintained on behalf of Members by service bureaus. This initiative was commenced in Q1 06 and will be completed in Q3 07.

**Revise the Investigation By-Law**

*MR Continuous Improvement*

Update, streamline and reform IDA authority to conduct examinations and investigations of Member firms and their registered employees. This initiative was commenced in Q1 06 and will be completed in Q1 08.

**Improve Compliance Examination Review Timeliness**

*MR Continuous Improvement*

Develop software applications for Financial Compliance and Sales Compliance to automate the review of compliance examinations and reduce the time it takes to turn around a compliance examination. There will be ongoing functionality enhancements to continually increase efficiency and use of the software. This initiative was commenced in Q2 05 and will be completed in Q1 07.

**Knowledge Transfer**

*MR Continuous Improvement*

This is an ongoing initiative to better educate and assist Members with the implementation of regulatory requirements. We are currently working on:

- Website enhancements – This will make the website version of the IDA Rule Book more searchable and link the Rule Book provisions to relevant supplementary regulatory material. This initiative was commenced in Q3 05 and was completed in Q2 06.
- Reorganize, reformat, and re-write IDA rules in plain language. This will make the IDA Rule Book easier to use and understand by re-organizing and reformatting the rules and writing them in plain language. This initiative was commenced in Q4 06 and will be completed in Q4 08.

**Retail Debt Market Policy Development**

*Strategic Partnership*

This is an ongoing initiative to develop polices that will enable the IDA to more effectively monitor and regulate trading in Canada’s fixed income markets. New market conduct rules for institutional and retail trading were implemented in Q2 06. We are currently working on policies that will provide retail investors with better information on the costs, compensation and conflicts respecting their purchases of fixed income products. This work commenced in Q2 06 and will be completed in Q2 07.

In addition, Member Regulation is working with Market Regulation Services Inc. (RS), the Bourse de Montréal and the CSA to develop a Trade Reporting and Electronic Audit Trails System (TREATS) to provide regulators access to fixed income order and trade information in order to more effectively monitor fixed income trading.

*continued on page 9*
Responding to Investor Complaints

In May, 2005, the Ontario Securities Commission (OSC) hosted an Investor Town Hall to address issues and concerns raised by investors. A panel consisting of representatives from the OSC, the IDA, the Mutual Fund Dealers Association of Canada (MFDA), the Ombudsman for Banking Services and Investments (OSBI) and the Small Investor Protection Association (SIPA), participated in dialogue and discussion with the audience. The OSC, IDA, MFDA, and OSBI subsequently struck a joint committee to address investor priority issues, one of which is the handling of client complaints.

Because investor protection is a key priority in evaluating client complaints, the IDA investigates complaints as quickly as possible, consistent with respecting individuals’ rights to a fair and thorough evaluation of the merits of the complaint against them. This is why the IDA will only confirm the existence of an investigation when it has satisfied itself that there is sufficient evidence to proceed to a public hearing. Once a Notice to Public is issued, of course, all elements of the disciplinary process are on the public record.

The IDA has put in place processes to assess and investigate each complaint it receives, as well as performance benchmarks setting out acceptable time frames to carry out each stage in the complaint handling process. (Please see the Enforcement Annual Report 2006 on the IDA website for a full report.)

The IDA examines all complaints to determine if there is any indication of a regulatory infraction. IDA Member firms are required to report all written client complaints within 20 days of receipt via ComSet (an electronic website reporting system). IDA analysts monitor ComSet on a daily basis, ensuring that complaints are given a prompt initial review immediately before they are forwarded to the IDA’s Case Assessment Group for preliminary investigation. Complaints are also filed directly with the IDA by the public, by other regulators, police forces, etc and they too are initially assessed at the Case Assessment Group. In 2006, 96% of complaints received were assessed in less than 75 days.

Complaints deemed to require additional investigation proceed to the Investigations stage. As of Dec. 31, 2006, 70% of complaints were investigated within one year and 74% were prepared for prosecution in less than ten months. (Timelines in this last phase are subject to external factors such as the availability of Hearing Panels and defense counsel, interlocutory motions or appeals.)

The IDA immediately reports every complaint where there appears to be evidence of criminal activity to the appropriate police authority. Moreover, if there is concern at any point in the complaint investigation process that the public interest is at risk, the IDA has the ability to act immediately to protect investors.

Complaint Handling by IDA Member firms

On December 20, 2006, the IDA issued Member Regulation Notice MR0441 regarding current rules, expectations and industry best practices on how Members should handle client complaints. The IDA will be reviewing these complaint handling guidelines to further clarify the IDA’s complaint handling standards for Members. Any proposed rule changes will be submitted to the Canadian Securities Administrators for approval in 2007.

ComSet data allow IDA staff to monitor and review complaint handling resolution at IDA Member firms. A complaint is considered resolved if it has been received and reviewed by the Member firm and the firm has communicated its final decision to the client. It is considered unresolved if it is still under review by the firm or awaiting customer response.

From October 15, 2002 to December 31, 2006, 85% of complaints were resolved within six months; 95% of complaints were resolved in less than 12 months. Over the same time period, 85% of outstanding customer complaints are less than six months old; 93% of outstanding customer complaints are less than 12 months old.

For more information, please contact
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(416) 943-6904 or apopovic@ida.ca
Enforcement

Emerging complexities in the disciplinary process sparked changes and improvements in IDA Enforcement systems, policies and procedures in 2006. Disciplinary matters have become more complex, leading to an increase in preliminary and procedural matters and longer hearings.

Case Tracking System (CTS)

The IDA’s Case Tracking System (CTS) is an internal system that tracks all referrals to Enforcement, Investigations, Prosecutions and Appeals. In order to ensure that Enforcement staff is dedicating their efforts to more serious and complex investigations and prosecutions, a new complexity and seriousness rating system was put in place in the third quarter of 2006. The seriousness and complexity rating system is designed to track whether or not IDA Enforcement is in fact working on material files and dedicating resources to those files. Other recent improvements include: enhancing the loading of electronic documents and reports to the CTS and enhanced reporting capabilities.

Sanction Guidelines

During 2006, the IDA Sanction Guidelines were reviewed, revised and subsequently re-approved by the Member Regulation Oversight Committee and the Board. The guidelines set out the principles that Enforcement Counsel must consider when deciding what is an appropriate sanction for purposes of settlement or at a sanction hearing. The guidelines are also meant to encourage Member firms to resolve matters internally where feasible and where it is in the public interest to do so. Hearing Panels may take these guidelines into account when deliberating whether or not a settlement or sanction is appropriate.

Cost Tracking

The IDA attempts to recover the costs associated with any Enforcement activity from the individual or Member firm who has been the subject of a disciplinary process and found to have violated IDA rules or regulations by a Hearing Panel. In 2006, IDA Enforcement upgraded its cost tracking system to more effectively track costs associated with an investigation, litigation or appeal and provide the Hearing Panel with detailed accounting for each matter.

ComSet

In 2006, the IDA did a complete rebuild of the ComSet software, updated the ComSet web page and moved the system from a third party provider onto the IDA’s own servers, a move that saves the IDA approximately $85,000.00 a year. The result of this work is a new and improved ComSet system that is more user-friendly,
includes upgraded reporting capabilities and provides the Member with a reminder of open client complaint events immediately upon log-in. In addition to the software upgrade, ComSet data was added as a factor in the preparation of the Risk Trend Report, which permits Member firms to determine and compare the relative amount of reporting made by their peers.

**Videotaping**

In 2006, the IDA completed the installation of electronic recording equipment in all IDA offices to videotape statements. Investigators are now able to ensure an accurate record is maintained for various uses in the investigation process.

For more information, please contact:
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**Financial Compliance**

The IDA’s Financial Compliance department noted a decrease in the number of firms experiencing Early Warning and capital deficiency violations over the past year. Also, in 2006, Financial Compliance made significant progress in its departmental initiative to create a shared, electronic database of information through the implementation of two software systems: “TeamMate” and “Sharepoint.”

**Industry Trends (2003-2006)**

The number of Members designated in Early Warning and experiencing a capital deficiency decreased from 2003 to 2006. The data supports an improving compliance trend in the industry and is due to an upswing in the profitability of firms, increased awareness by Members of the importance of being better capitalized and the implementation of IDA strategic initiatives contributing to reducing the risk profile of Member firms.

The reasons for capital deficiency in 2006 were: failure to obtain a signed custodial agreement for securities held at an acceptable securities location; failure to provide sufficient margin on securities with no loan value; failure to recall excess cash on deposit with correspondent commodities brokers; and failure to provide sufficient margin in transactions with counterparties. In all of these circumstances, the risk to the public was minimal.

**Audit Workflow Document Management**

The objective of the Audit Workflow Document Management project is to replace the current process of manually compiling hard-copy working papers with an electronic audit management software system called “TeamMate.” Staff were trained to use “TeamMate” in three of the four IDA offices during the past year and the remaining IDA office will be trained in early 2007.

**Document Management**

MiiRA (Member Information Intelligence and Risk Assessment) is a Member Regulation Strategic Initiative Project to create a shared database that allows information and intelligence gathering regarding Member firms. A key building block of the MiiRA portal is Microsoft SharePoint server software which allows Financial Compliance staff to collect, organize, categorize and share documents in a virtual electronic library. This virtual library of Financial Compliance information is a critical step in the transition of examination workflow from hardcopy to softcopy.

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**Sales Compliance**

The IDA’s Sales Compliance Department began using risk assessments to determine not only which Member firms to review but also to reduce the extent of reviews, when warranted; trained all Sales Compliance Officers on the use of the recently introduced automated system; made significant progress on the Debt Market Review Project; completed course material for the Chief Compliance Officer Examination; and
participated in working groups on two Canadian Securities Administrators (CSA) initiatives.

**Risk-Based Methodology**

In addition to using risk assessments on Member firms, Sales Compliance also began conducting Strategic Scope Reviews, designed to look in detail at only a subset of the areas of Members’ business and to get a sense of the overall state of the Member’s compliance system and any changes since the previous review. In some cases, a strategic scope review will replace what would once have been a full review; in others it will be used to make a determination that a broader review is necessary and its priority in relation to other scheduled reviews.

**Debt Market Review Project**

Changes to Policy 5 – Code of Conduct for IDA Member Firms Trading in Wholesale Domestic Debt Markets and new Policy 5B – Retail Debt Market Trading and Supervision were approved by the requisite securities regulatory authorities and implemented in May 2006.

Sales Compliance began intensive research into mark-up and commission practices, focusing on the retail market, which culminated in a survey of selected dealers. The Department also initiated discussions with other debt market regulators regarding mark-up rules and practices and debt market surveillance. Results are still being compiled and will be used to determine whether further rule-making or guidance is necessary.

**Chief Compliance Officer (CCO) Examination**

The course material was completed last year and a final review of the material is now in progress, along with development of the examination questions and translation. In addition, the IDA Board passed changes to By-law 38 and Policy 6, Part I, making the CCO Exam mandatory; these are awaiting securities commission approval. They will mirror the Chief Financial Officer Exam requirements, with current CCOs having to pass the exam within 18 months of implementation of the rule and grace periods for newly appointed CCOs to pass it. There is a provision to exempt Member firms that do not conduct any business to which the CCO exam is relevant, such as those that do proprietary trading only or only operate alternative trading systems.

**Anti-Money Laundering and Terrorist Financing Developments**

The Department of Finance held discussions with, and sought advance comment from, the Anti-Money Laundering Committee of the IDA’s Compliance and Legal Section on some of the provisions of Bill C-25 – Proceeds of Crime (Money Laundering) and Terrorist Financing Act (received Royal Assent in December 2006). The Department of Finance has since held pre-publication consultations with the Anti-Money Laundering Committee regarding proposed regulation changes. The Committee recommended a limited number of changes to the existing regulations that it believes would be of significant benefit to Members without reducing the efficacy of Canada’s Anti-Money Laundering regime.

Sales Compliance put in place mechanisms for exchanging information with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). These include providing information to FINTRAC on a periodic basis of deficiencies in anti-money laundering controls found during sales compliance reviews.

The IDA continued working with the Anti-Money Laundering Committee of the International Council of Securities Associations (ICSA) to assist the Financial Action Task Force (FATF) in defining the parameters of a risk-based approach to Anti-Money Laundering controls. The Committee provided significant input to a paper on the risk-based approach presented at the October 2006 plenary session of the FATF. The FATF is still considering how risk-based approaches can be implemented within an effective Anti-Money Laundering regime.

**Joint Projects with the Canadian Securities Administrators**

Sales Compliance was involved in working groups on two Canadian Securities Administrators initiatives: the Registration Reform Project and the Transaction Reporting and Electronic Audit Trail System (TREATS). The objective of the Registration Reform Project is to create a flexible regime leading to administrative efficiencies and a reduced regulatory burden. The objective of the TREATS project is to establish a comprehensive dealer trade reporting and electronic audit trail framework to meet the requirements of CSA National Instrument 21-101 Marketplace Operations and National Instrument 23-101 Trading Rules.
Sales Compliance also conducted a survey of Member firm Chief Executive Officers and Chief Compliance Officers regarding proposals to: adopt the Ultimate Designated Person/Chief Compliance Officer model of IDA By-law 38; require registration of senior management and directors (or their equivalent), but not officers having no management responsibilities; and facilitate the transfer of registered representatives between Member firms.

For more information, please contact:
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(416) 943-6903 or lboyce@ida.ca

Registration

In 2006, the Investment Dealers Association’s Registration Department continued to monitor the progress of Approved Persons in completing their requirements under its Continuing Education program, made significant changes to the National Registration Database (NRD), continued its work on the Registration Reform Project, and had all of its paper registration files scanned by an outside service provider.

National Registration Database (NRD)

An initiative of the Canadian Securities Administrators (CSA) and the IDA, NRD is a web-based system that allows dealers and advisers to file registration forms electronically.

There were a number of significant changes made to the system last year. Amended applications are now flagged on the work-in-progress screens of Registration personnel. The amended applications can be given priority as they have already been reviewed, so approval can be granted quickly if the deficiency has been adequately rectified. In addition, termination notices can be amended after filing, and the process of entering and correcting information was made more efficient for Member firms.

Registration Reform Project

The Registration Reform Project is a national project of the CSA to harmonize, streamline and modernize the registration regime across Canada. The objective is to create a flexible regime leading to administrative efficiencies and a reduced regulatory burden.

The Registration Department contributed to a number of parts of the project, including a working group to draft changes to the Form 4 application for individual registration/approval. The proposed changes, which will be published with the national registration rule, include: reflect any new requirements coming out of the rule such as new categories of individual registration, clarify the questions that have tended to confuse many applicants, and re-word the form into plain language.

Registration also participated in another working group formed to review firm applications with the objective of having a uniform form for all CSA jurisdictions, thus streamlining the application process. Registration is working with the IDA’s Association Secretary’s office to see if the form can also be made to serve as an application for IDA Membership.

Registration management and the IDA’s NRD Business Analyst have been working on a proposal to simplify IDA approval categories. The proposal will go forward in 2007 for comment by Member firms.

File Scanning – Going Paperless

Registration had all of its paper registration files scanned by an outside service provider. The project captured 3,000,000 images (from 31,000 file folders).

For more information, please contact:
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(416) 943-6903 or lboyce@ida.ca

For more information, please see the 2006 Member Regulation Annual Reports, now available on the IDA’s website at www.ida.ca.
IDA to Host Annual ICSA Meeting

Once a year, members of the International Council of Securities Associations (ICSA) gather at the Annual General Meeting to discuss critical issues relevant to the international securities market. This year the IDA and Canada will host ICSA’s 20th Annual General Meeting on May 14 and 15, 2007, in Toronto.

Delegates representing self-regulatory organizations and trade associations who regulate and/or represent the majority of the world’s equity, bond and derivatives markets will be addressing current and prospective issues relating to domestic and global capital markets.

Established in 1988, ICSA’s objective is to encourage the sound growth of the international securities markets by promoting harmonization and the procedures of regulation of those markets and to promote mutual understanding and the exchange of information among members.

ICSA members include:

- Association of Capital Market Intermediary Institutions of Turkey (TSPAKB)
- Australian Financial Markets Association (AFMA)
- Bond Exchange of South Africa (BESA)
- French Association of Investment Firms (AFEI)
- International Capital Market Association (ICMA)
- Investment Dealers Association of Canada (IDA)
- Italian Association of Financial Intermediaries (Assosim)
- Japan Securities Dealers Association (JSDA)
- Korea Securities Dealers Association (KSDA)
- London Investment Banking Association (LIBA)
- National Association of Securities Dealers (NASD)
- Securities and Financial Markets Association (SIFMA)
- Swedish Securities Dealers Association (SSDA)
- Taiwan Securities Association (TSA)

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Member Regulation Strategic Plan Update continued...

Client Relationship Model

Strategic Partnership

The IDA has been working with the CSA, the Mutual Fund Dealers Association (MFDA) and the industry to implement the core principles of the Ontario Securities Commission’s Client Relationship Model:

- clarity in relationships and account opening documentation;
- better disclosure of costs, compensation and conflicts; and
- better account performance information.

The SRO rule development portion of the initiative commenced with the creation of the SRO Rule Making Committee in Q3 05. The work of the committee will be completed in Q4 07.

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Registration Reform Project

Proposed National Instrument 31-103 – Registration Requirements

On February 20, 2007, the Canadian Securities Administrators (CSA) published Proposed National Instrument 31-103 – Registration Requirements, along with a covering Notice and Request for Comment and a Companion Policy.

The purpose of the Rule is to harmonize, streamline and modernize registration requirements across CSA jurisdictions and, wherever possible, with SRO Requirements. The proposed rule covers a wide range of requirements, not simply initial registration requirements but also ongoing requirements on registered firms regarding capital, books and records, business conduct, compliance and supervision, conflicts of interest, referral arrangements and complaint handling.

Some of the key features of the proposed national instrument are:

- The introduction of a “business trigger” for dealer registration, under which a firm or individual must be in the business of trading to require registration; currently the registration requirement is triggered by being involved in a trade or any act in furtherance of trade. This change will result in a substantial reduction in the number of exemptions required.

- The non-application of the adviser registration requirement to dealers who provide non-discretionary advice to clients in connection with securities in which they deal. This is a change from the current exemption for advice “incidental to” trading and recognizes that advising on securities is a fundamental part of most dealers’ services (section 2.4).

- Recognition in various ways of SRO rules, including:
  1. Non-application of adviser registration requirement to IDA Members that provide discretionary portfolio management in compliance with IDA regulations (Section 2.5).
  2. Non-application of a wide variety of provisions to SRO Members that comply with SRO rules covering the same subject matter, including capital, insurance, suitability, margin, confirmation and complaint requirements (section 3.3). In some cases some provisions in these areas do apply to SRO Members.
  3. Elimination of any specific proficiency requirements for SRO Members, leaving the establishment of such requirements solely to SRO rules.

  - Movement to a principles-based approach for many ongoing registration requirements in matters such as record keeping, supervision and conflicts of interest. While more prescriptive IDA rules will continue to apply in these areas, the proposed national instrument would give the IDA the opportunity to consider rule changes that might currently be contrary to prescriptive CSA regulations.

Proposed National Instrument 31-103 is a significant step forward in the harmonization of regulations across CSA jurisdictions. In addition, it was developed by a working group which included unprecedented SRO involvement. IDA and MFDA staff were represented in the working group itself and on sub-committees dealing with capital, supervision and proficiency requirements and proposed amendments to firm and individual application forms.

The proposed national instrument and companion policy will have far-reaching effects on Members. Because of their length and importance, the comment period extends to June 20, 2007. The IDA encourages all Members to study them carefully and submit comments, both positive and critical.

The full Proposed National Instrument and Proposed Companion Policy are posted on the IDA website at www.ida.ca.

For more information, please contact:
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(416) 943-6903 or lboyce@ida.ca
Rule Book Re-write Project

In November 2006, the IDA began its Rule Book re-write project with a two-day plain language workshop for the drafters (Subject Matter Experts or SMEs) and IDA staff who are involved in the project.

In addition to contracting John Carson to act as the technical consultant for the project, we have engaged four lawyers (all former industry professionals) to do the redrafting, and Wordsmith Associates to help with the plain language writing.

We established an Industry Consultative Committee of members from Compliance and Legal Section (CLS) and Financial Administrators Section (FAS) executives to act as a sounding board. They have met twice so far.

The drafting process began with a joint exercise to redraft Regulation 1300 and Policy 2, which proved to be no easy task. We are not just re-writing the rules in plain language; we are restructuring and reorganizing them into a more logical order, easy to understand and therefore easy to comply with.

During that same exercise, a Style Guide was drafted which will be used by the SMEs to ensure consistency in approach.

A law student was hired in Q3-2006 to link all Notices and Bulletins to the By-laws, and the work was completed in mid-November. The linkages will be used by the SMEs in their drafting work. In the interim, plans are underway to add the linkages to the current Rule Book, which will be of a more immediate benefit to Members.

Drafting and review procedures have been written for the SMEs and IDA staff who will continue to be involved in the by-law development process after the project is completed in order to ensure consistency.

A new Rule Book structure has been agreed upon which will include an introduction, membership and registration, business conduct, financial and operational rules, market rules, and procedural rules. There will also be a user guide added to the Rule Book. The Universal Market Integrity Rules (UMIR) will be added once the merger with RS Inc. is finalized.

The Rules are intended to be concise and will cover core requirements and principles while supporting Policies will supplement the Rules and provide additional details that are also mandatory. Rules and Policies require approval from the IDA Board and the Canadian Securities Administrators (CSA). Guidance Notes (GNs) supplement the Rules by providing guidance on interpretation, implementation and practice of the Rules. Unlike Rules and Policies, GNs are not mandatory.

A numbering convention has been agreed upon for the Rule Book which will provide flexibility in the future. Policies and Guidance Notes will carry the same number as the related Rules.

The CSA is fully aware that substantive changes will not be made to the Rule Book in the course of this project and any such changes will be dealt with following the normal by-law approval process. In addition, any by-law provisions that are duplicated or no longer relevant will be eliminated.

The IDA is committed to keeping its Membership involved in the project. To that end, a Members Only Website on the IDA-Knotia site (http://ida.knotia.ca) has been created to have the Rule Book drafts posted there for limited periods of time for all members to review and comment.

As a communication strategy, the CSA, FAS, CLS and District Councils will be kept informed of the progress of the project on a regular basis.

For more information, please contact:
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District Council Updates

Pacific and Prairies Regions

The Pacific, Alberta, Saskatchewan and Manitoba District Councils continue to monitor the key policy developments that are working their way through the policy development process. These are the Client Relationship Model and the Registration Reform Project. Their efforts have been directed towards better understanding the policies and formulating constructive comments.

The District Councils have also considered a number of new applications for Membership. Applications are fairly common although recently membership matters have been more complex and have required the Councils to wrestle with some difficult issues.

For more information, please contact:
Warren Funt
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Ontario District

Due Diligence Process for New Hires

The Ontario District Council proposed that the IDA formalize a process which is currently in place whereby the IDA’s Registration Department makes available to the hiring Member a copy of the registrant’s file with the latter’s express authorization.

The IDA is considering the proposal to formalize the process and the issue of an MR Notice informing Member firms of the availability of such a service and the associated costs of providing the information.

For more information, please contact:
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(604) 331-4750 or wfunt@ida.ca

Québec District

Breakfast Seminars: A Winning Formula

Since last October, representatives in Québec have been able to attend monthly continuing education seminars. The Québec District Council, through its Continuing Education Committee, has developed a program of seven breakfast seminars. The formula allows participants to acquire knowledge entitling them to Continuing Education credits.

The first five seminars drew over 250 participants. The speakers included:

- Pierre Novak, Sales Manager, Blumont Capital
  Topic: Hedge Funds
- Richard Corner, Vice-President, Regulatory Policy, Investment Dealers Association
  Topic: Client-Advisor Relationship Model
- Robert Lamarche, Sales Compliance Officer, Investment Dealer Association
  Topic: Practical aspects of supervision by the branch manager.
- Gladys Karam, Head, Retail Clients, Business Development, Financial Markets, Montréal Exchange
  Topic: Advanced Options strategies

The current session will continue with:

- Colette Arcidiacono, Sales Compliance Officer, Investment Dealers Association
  Topic: Reconciling your public image as an adviser and producer with the regulatory requirements
- Pierre Saint-Laurent, President, ActifConseil inc.
  Topic: New trends in managing the alpha and the beta in a portfolio.

The members of the Québec District’s Continuing Education Committee are now planning the next season of activities, which will begin this September. We invite you to browse the IDA website over the next few months for more details on upcoming conferences and seminars.

Client Relationship Model Survey

Lisa Lake Langley, Vice-President, Member Services, recently reported to members of the Ontario District Council that as part of the cost/benefit analysis, the Canadian Securities Administrators (CSA) will be conducting a client survey with respect to the Client Relationship Model. The CSA has requested that each retail Member firm provide names of clients to participate in the survey. The clients should include a cross section of clients who opened accounts with an IDA Member in 2006.

For more information, please contact:
Maysar Al-Samadi
Vice-President, Professional Standards
(416) 943-6902 or malsamadi@ida.ca

continued on next page
IDA Participates in Consultation on the Protection of Investors

On February 7, 2007, Members of Québec’s District Council participated in the General consultation and public hearings on the protection of investors in Québec, held by the National Assembly’s Committee on Public Finance. The members of this parliamentary committee solicited the IDA’s input within the framework of its order of initiative on the protection of investors in Québec. Luc Papineau (Chair, Québec District Council), François Breton (Vice-Chair, Québec District Council) and Carmen Crépin (Vice-President, Québec) presented the IDA’s submission and answered questions. The submission is available online at: http://www.assnat.qc.ca/fra/37legislature2/commissions/cfp/depot-epargnants.html.

Regulation Committee

The Québec District’s Regulation Committee took part in the consultation on the reform of IDA By-laws 19 and 20. At the meeting, held in October 2006, members were informed of the amendments being contemplated and had an opportunity to discuss them with Alex Popovic (Vice-President, Enforcement) and Nancy Mehrad, (Legal & Policy Counsel, Regulatory Policy).

Internal Operations Committee

Members of the Québec District’s Internal Operations Committee attended an information meeting and discussion on the impact of setting up multiple markets that trade the same securities. The aim of the meeting was to provide participants with a better understanding of the scope of this change and its implications on an operational level.

For more information, please contact:
Claudyne Bienvenu
Regional Director, Regulation
(514) 392-3435 or cbienvenu@ida.ca

Atlantic Region

Reform of By-laws 19 and 20

In November 2006, the Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland District Councils took part in the consultation on the reform of By-laws 19 and 20. Members of these District Councils met with Alex Popovic and Nancy Mehrad and outlined their views of the proposed amendments.

The meetings held with each Council helped clarify the scope of the change, and identify irritants or concepts under consideration that could be improved. The participants found the consultation process very informative.

Client/Adviser Relationship Model

In October and November 2006, members of the District Councils of the Atlantic Provinces were able to discuss the content of the draft client/adviser relationship model at a presentation by Richard Corner (Vice-President, Regulatory Policy). Mr. Corner presented the regulatory proposals that are currently under development and provided clarifications on specific aspects of the project. During the discussion period, the members were able to contribute suggestions and discuss ways of achieving the objectives underlying the implementation of such a model. The consultation process was very well received.

Nova Scotia District

Meeting with the Nova Scotia Securities Commission

On February 14, 2007, the Nova Scotia District Council hosted Mr. H. Leslie O’Brien (Chair, Nova Scotia Securities Commission) at its District Council meeting. The meeting was an opportunity to discuss current projects underway at the Nova Scotia Securities Commission. Council reported on projects underway at the IDA. Council Chair Suzanne Buntain suggested holding such a meeting on an annual basis.

New Brunswick District

Meeting between the New Brunswick District Council and the New Brunswick Securities Commission

In November 2006, New Brunswick District Council Chair Sandra Barton met with Donne Smith (Chair, New Brunswick Securities Commission). The objective of the meeting was to discuss the status of IDA recognition in New Brunswick. The meeting was also an opportunity to outline the mandate of the District Council in this province and report on upcoming activities.

For more information, please contact:
Claudyne Bienvenu
Regional Director, Regulation
(514) 392-3435 or cbienvenu@ida.ca
Financial Administrators Section

BCP industry-wide testing
The IDA is moving forward with preparations for an industry-wide testing of Members’ business continuity plans which is scheduled for Saturday, September 15, 2007.

The objective of the test is to exercise and verify the ability of Member firms, markets and utilities to operate during an emergency using backup sites, recovery facilities and backup communications capabilities across the industry. We will be testing the ability of Members to place trades covering a wide variety of products including equities, fixed income, options, futures and mutual funds.

The test will be done on a voluntary basis for Members, but will include all the major carriers and integrated Member firms. In response for a call to Members for volunteers, we received in excess of 40 applications.

Also participating in the test will be all the major service providers to our Members. They include the Toronto Stock Exchange (TSX) and Venture Exchange (TSX-V), Bourse de Montréal, Clearing and Depository Services Inc. (CDS), Canadian Derivatives Clearing Corporation (CDCC), FundSERV Inc., IBM, ADP and Dataphile. The circle of service and data providers will be enlarged in the coming years.

A working group of the Contingency Planning Subcommittee has been set-up to help in the planning for the test and we have engaged Keith Rose to assist the IDA in the preparation, coordination and the conduct of the test.

IDA staff is currently meeting with the service providers to work out the logistics for the test. In addition, IDA staff will be meeting with all Members who are participating in the test to discuss the mechanics of the test and the test scripts that will be used and to ensure Members will be ready by September 15, 2007.

For more information, please contact:
Maysar Al-Samadi
Vice-President, Professional Standards
(416) 943-6902 or malsamadi@ida.ca

Compliance and Legal Section

Client Relationship Model
The SRO Rule Making Committee is mandated to institute rules to execute the vital concepts set out in the direction documents generated by the Canadian Securities Administrators’ (CSA) working groups. At the Compliance and Legal Section and Financial Administrators Section meetings in December 2006, the summary of survey responses from the adviser consultation and the draft board paper on the proposed relationship disclosure document were presented, followed by a request for comments from Member firms.

The IDA will continue to consult with the District Councils and the National Advisory Committee on the initiative.

The CSA is in the process of organizing a cost versus benefit analysis.

For more information, please contact:
Leslie Pearson
Legal & Policy Counsel, Regulatory Policy
(416) 943-5878 or lpearson@ida.ca

By-laws 19 and 20 Reform Project
The IDA is in the process of reviewing By-laws 19 and 20 in an attempt to improve the rules related to the IDA’s hearing processes, compliance examinations and enforcement investigations. The IDA recently completed its nation-wide consultation on the issues and proposed changes to By-laws 19 and 20, meeting with all District Councils and various IDA staff across the country. The IDA also made a presentation to the CLS in December 2006.

For more information, please contact:
Nancy Mehrad
Legal & Policy Counsel, Regulatory Policy
(416) 943-4656 or nmehrad@ida.ca

Joint Notice on the Role of Compliance and Supervision
The CLS Role of the Compliance Officer sub-committee, which was formed to examine the understanding of standards, expectations, and ways to support the compliance function at Member firms, issued a Joint Notice on behalf of staff of Market Regulation Services Inc., the Mutual Fund Dealers Association of Canada, Bourse de Montréal Inc., and the IDA.

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“Building a bridge between policy and application by sharing knowledge”

In 2004, the IDA conducted a Member survey to identify opportunities to enhance the IDA’s ability to transfer regulatory knowledge to Member firms. Since then, a number of recommendations were made and implemented, including the recently formed Member Services Group headed by Vice-President, Member Services, Lisa Lake Langley.

The mission of the Member Services Group is to provide active, accessible support to Member firms in the implementation of compliance policies by sharing the knowledge and expertise of both the Member firms and the Association. Their key objectives are to i) support knowledge transfer; ii) enhance industry compliance by helping Member firms implement policies and rules; iii) develop education and training venues; and iv) broaden policy contribution for ground floor feedback. The Group will play a key role in leading and managing delivery of the IDA’s knowledge transfer initiatives, facilitating knowledge transfer through a variety of vehicles including the use of surveys, focus groups, distance learning, web casts and satellite-based technologies.

As Vice-President, Member Services, Lisa Lake Langley brings expertise and experience in designing, organizing and delivering education and training compliance programs, as well as first hand experience in securities regulation through previous industry experience, most recently as President, Chief Operating Officer and Chief Compliance Officer at First Asset Advisory. Desmond Alvares, Director Member Services, has extensive hands-on experience in the securities industry, as well as expertise in delivering adult education and training programs through e-channels, workshop and lecture based formats. Desmond will work with Member firm committees to design, implement and deliver training programs to enhance the compliance knowledge and experience of employees in Compliance, Operational and Branch Manager roles. The Member Services Group is a part of the Corporate and Member Services Division of the IDA.

The Group has most recently conducted surveys to obtain Member feedback on key issues (Registration Reform, Debt markets, Online security and Principal Protected Notes); initiated a new monthly education Web cast series (its first two offerings ‘Advising Incapacitated Clients’ and ‘Power of Attorneys/Trusts’ attracted over 3,500 participants) and launched a well-attended quarterly Breakfast Symposium series for Member Firms, starting with “Identity Theft” in November 2006 and followed by “Online Trading Security and Computer Crime Insurance” in January of this year.

For more information, please contact
Lisa Lake Langley
Vice-President, Member Services
(416) 943-5844 or llangley@ida.ca

New e-mail alerts added to e-publications

E-publications now includes two additional e-mail alert selections to provide subscribers with timely information on upcoming adviser educational webcasts, including content and registration information on webcasts and conference calls presented by the IDA’s Member Services Department; and investor alerts, including investment industry related scams and frauds that are of current concern to industry regulators.

E-publications is a free online subscription service, whereby individuals can sign up to receive e-mail alerts when new publications or documents are posted on the IDA’s website. To subscribe, go to the IDA’s website at www.ida.ca and click on the e-Publications tab at the top of the What’s New page.
**Regulatory Update**

**New Rules Now In Effect**

The Association has implemented changes to Regulations 100.2(d) and 100.13. The objective of the housekeeping amendments is to remove references to specific exchanges and individual titles and to clarify the wording. These housekeeping amendments will require no system changes by Members. The amendments were approved at the September 2006 Board and by the securities commissions on January 15, 2007. A bulletin will be issued shortly.

The Association has implemented changes to Policy No. 6, Parts I and II, Proficiency and Education. The objectives of the amendments to Policy No. 6, Parts I and II are to recognize additional courses and exemptions without reducing the rigour of the existing proficiency requirements, to eliminate outdated requirements and references, and to add provisions for an exemption fee. The amendments also correct a number of terminological, syntactic and grammatical errors in the current policy and update cross-references to other By-laws and Regulations. The amendments to Parts I and II of Policy No. 6 were approved at the June 2004 Board and by the securities commissions in July 2006. IDA Bulletin #3595 was issued on December 30, 2006.

The Association has implemented changes to Form 1 to permit foreign pension funds to be classified as “Acceptable Institutions” and “Acceptable Counterparties”. Current Association rules do not specifically recognize foreign pension funds as either “acceptance institutions” or “acceptable counterparties” for credit risk purposes. This results in most foreign pension funds being margined using the same approach used for retail customers. The amendments will eliminate or significantly reduce the margin requirements that apply to foreign pension funds as they will now qualify as either acceptable institutions or acceptable counterparties. The reduction in margin requirements will provide Member firms with more capital efficient access to a group of foreign securities lending counterparties without negatively affecting the solvency of Member firms or their customers. The amendments were approved at the January 2004 Board and approved by the securities commission on November 30, 2004 and May 16, 2006 by the AMF. A bulletin will be issued shortly.

**Upcoming Rule Changes**

Rules that will become effective in the coming months include:

**Business Structures:** The objective of the amendments to By-law No. 1.1 and 39 is to permit the use of an additional business structure for relationships involving Members and their Approved Persons. In addition to the traditional employer and employee relationship and the principal and individual agent relationship that currently exists, the proposed revisions to By-law 39 would create a new subcategory of agent, the incorporated agent. Under this structure, the incorporated agent would be controlled by an Approved Person (as defined under the Association’s Rules), or Approved Persons and will conduct Securities Related Activities on behalf of Members in the same way that employees or individual agents presently conduct Securities Related Activities. In order for the proposed changes to By-law 39 to be effective, changes to Canadian securities legislation would be required. The proposed amendments were approved at the January 2006 Board and has been submitted to the securities commissions for approval.

**Board of Directors, National Advisory Committee and Meetings:** The objective of the amendments to By-laws 10.1 and 10.4 are to eliminate the mandatory requirement that at least two-thirds of the Board be comprised of industry directors and in turn facilitate an increase in the proportion of public directors. The amendments will also reduce the number of members needed to form a quorum of the Board from nine members to seven members. The proposed amendments were approved at the June 2005 Board and submitted to the securities commissions for approval. The amendments have been withdrawn and redrafted to set out that the Board of Directors must be comprised of an equal number of Public Directors and Industry Directors. The size of the Board has also been reduced from a maximum of twenty-six members to a maximum of twenty-one members. The proposed amendments were approved at the April 2006 Board and have been submitted to the securities commissions for approval.

**Definition of Non-Retail Clients:** The objective of the amendments to By-law 18.8 refers to the definition of an institutional customer contained in Policy No. 4 to ensure consistency. The proposed amendments were approved at the April 2006 Board and have been submitted to the securities commissions for approval.
Registered Representatives and Investment Representatives: The objective of the amendments seeks to repeal By-law 18.14(d)(iii) as it is deemed unnecessary from a regulatory perspective. 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 By-law 18.14(d)(iii) is redundant. Furthermore, since the TSX Venture Exchange has stated they do not plan to provide dual employment approvals in the future, By-law 18.14(d)(iii) in its current form has been made ineffective. The proposed amendments were approved at the April 2006 Board and have been submitted to the securities commissions for approval.

CIPF Oversight Role: The objective of the amendments to By-Law No’s. 21 and 41 and Form 1, seeks to reflect changes to the CIPF oversight role. Rule changes are necessary to reflect the role changes and to ensure that CIPF has adequate ongoing access to Member premises, information and personnel, should the need arise due to an insolvency or for other reasons. The proposed amendments were approved at the September 2006 Board and have been submitted to the securities commissions for approval.

Discretionary Fund: The objective of the amendments to By-law 28.4 is designed to clarify certain anomalies or inconsistencies pertaining to the practical implementation of the By-law. The proposed amendments were approved at the October 2005 Board and have been submitted to the securities commissions for approval.

Conflicts of Interest and Client Priority: Based on comments received from Member firms, the proposed By-law is under review and it is anticipated that additional amendments will be required.

CCO Qualifying Examination: The objective of the amendments to By-law 38, and Policy 6, Part I is consistent with the overall strategic initiative by the Association to develop and implement risk assessment strategies designed to establish a minimum level of corporate governance amongst all Member firms and decrease the risk profile of high-risk Member firms. The proposed amendments were approved at the September 2006 Board and have been submitted to the securities commissions for approval.

New Methodology for Margining Equity Securities: The objective of the amendments to Regulation 100 and Form 1 is to accommodate the elimination of both the market price per share margining methodology and the list of securities eligible for reduced margin.

Changes have also been proposed to the margin requirements for convertible debentures and convertible preferred shares to make the requirements more consistent with those for related debt and equity securities of the same issuer. The proposed amendments were approved at the October 2005 Board and approved by the securities commission on August 18, 2006. IDA staff are now in the process of finalizing the implementation program. Some of the amendments will be implemented shortly. Others will be subject to a longer implementation period.

Extending Debt Offsets to Customer Positions: The objective of the amendments to Regulations 100.4A, 100.4B, 100.4C, 100.4D, 100.4E and 100.4K is to allow customers to benefit from the reduced margin requirements for a number of debt offsets that are already available to Member firms and to eliminate the differences between IDA and Bourse margin regulations regarding customer positions in debt offsets. The proposed amendments were approved at the September 2006 Board and have been submitted to the securities commissions for approval.

Complex Option Offset: The objective of the proposed amendments to Regulation 100.9 and 100.10 is to expand the number of permitted reduced capital and margin option offset strategies. A second objective is to expand the list of option spreads available for individual equity options by removing the current restriction limiting the Box Spread, Long Butterfly Spread, and Short Butterfly Spread to index products. A third more general objective of this proposal is to clarify and ensure consistency of the capital and margin requirements that are set out in Regulation 100. The proposed amendments were approved at the September 2006 Board and have been submitted to the securities commissions for approval.

Over-The-Counter Options and the Definition of an Option: The objective of the amendments to Regulation 100.11 seeks to repeal redundant sections and make the margin and capital requirements for OTC options consistent with those for exchange traded options, while retaining the current limitations on certain OTC option offsets. The amendment to the definition of “option” set out in Regulation 1900.1 seeks to update the names of the derivatives clearing corporations that issue and clear exchange traded options. The proposed amendments were approved at the June 2005 Board and have been submitted to the securities commissions for approval.

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Optional Use of Value at Risk Modeling To Determine Capital Requirements for Member Firm Security Positions: The objective of the amendment to Regulation 100.12 is to grant those Member firms who maintain sophisticated and/or significant proprietary inventories the option of using a VaR modeling approach to determine their capital requirement, the by product of which will be capital requirements being provided by the Member firm which are more reflective of the overall market risk of the proprietary inventory. The proposed amendment was approved at the October 2005 Board and approved by the securities commissions on August 31, 2006. IDA staff are now in the process of finalizing the implementation program.

Requirement to Send Quarterly Statements to Clients: The objective of the amendments to Regulation 200.1(c) seeks to set the minimum number of customer mailings per year for all Member firms to four. Currently there are Member firms whose fiscal year-end does not fall on a calendar quarter-end. These firms, because of the requirement to send out statements on a calendar quarter-end basis and the requirement to send out fiscal year-end statements for external audit purposes, end up sending a minimum of five sets of statements each year to all their customers with money balances and/or securities. The proposed amendment was approved at the January 2004 Board and has been submitted to the securities commissions for approval.

Confirmations for Externally Managed Account Transactions: The objective of the amendments to Regulation 200.1(h) seeks to relieve external portfolio managers from receiving unnecessary confirmations and providing Members with the option of instead providing clients with monthly statements enhanced to include all the items that normally appear on a confirmation. The proposed amendments were approved at the October 2005 Board and have been submitted to the securities commissions for approval.

Calculation of a Securities Concentration Charge for Positions in Broad Based Index Securities – Form 1: The objective of the amendments to Schedule 9 of Form 1 seek to allow Member firms the option of treating positions in broad based index products in the same manner as the underlying basket of index securities for security concentration purposes. Schedule 9 of Form 1 requires disclosure of the largest ten issuer security positions that are being relied upon for loan value so that over exposure to an individual issuer and applicability of a concentration charge can be determined. In determining whether an exposure to a particular issuer is a concern, the combined inventory and customer account collateral “amount loaned” exposure is calculated and compared to the Member firm’s risk adjusted capital. Broad based listed index products have become popular vehicles and have the advantage of reducing both the issuer and sector risk that may be associated with individual security holdings. As a result, it is believed that broad based index securities warrant different treatment in determining whether they represent significant issuer risk to a Member firm. The proposed amendments to Schedule 9 of Form 1 have been approved at the June 2004 Board and have been submitted to the securities commissions for approval.

Day Trading: Prior to the development of these proposals, there were no by-laws or regulations that addressed the unique issues that arise with respect to day trading. As there were a number of day trading promoting firms seeking Membership in the Association and day trading is an extremely risky activity, the need for rules specific to the unique investor protection concerns relating to day trading was apparent. The proposed regulations delineate the duties of a Member firm with respect to:

- Ensuring that a day trading account is appropriate for a particular client before the opening of such an account;
- Warning clients of the risks associated with day trading;
- Protecting the client from financial loss through the implementation of strict leverage limits, in the form of margin requirements.

The initially proposed Regulation 2500 was approved at the June 2001 Board and additional comments were provided by the securities commissions. Subsequently proposed Regulation 2500 – Day Trading, proposed Regulation 100.22 – Margin Requirements for Intra-Day Exposures and proposed Policy 10 – Margin Requirements for Certain Customer Accounts with Intra-Day Exposures, were approved at the October 2003 Board and have been submitted to the securities commissions for approval.

Proficiency Requirements for Futures Contract Portfolio Managers: The objective of the amendments to Policy No. 6, Part I is to add an education component to the proficiency requirements for futures contracts and associate futures contracts portfolio managers, to remove the barrier to entry caused by the inter-linking of the current requirements and to make the experience requirements relate directly to relevant experience in trading in or advising on futures contracts.
The proposed amendment was approved at the June 2005 Board and has been submitted to the securities commissions for approval.

**Capital Requirements Relating to Custodial Arrangements:** The objective of the amendments to Form 1, Statements B & C seeks to amend the current capital requirement for the situation where a custodian would otherwise qualify as an acceptable securities location, except for the fact that the Member firm has not entered into a written custodial agreement with the custodian. It is believed that these proposed revised capital requirements are more reflective of the risk of not having a custodial agreement in this situation, but that they still provide a sufficient incentive to the Member firm to execute the standard custodial agreement. The amendments were approved at the October 2002 Board and submitted to the securities commissions for approval.

**Auditors’ Report on Financial Statements:** The objective of the amendments to Form 1 seeks to make a housekeeping amendment to the Part I Auditors’ Report in Form 1 by allowing a change to the current prescribed audit opinion to reflect new CICA Handbook Section 5600. It is proposed that the current Part I Auditors’ Report be repealed and replaced with the new requirements as set forth by the CICA. There are a total of four different versions of the new audit reports: standard, combined, combined and non-consolidated and non-consolidated. Within each of these four audit reports there are three other sets of reports: standard, first year audit and new auditor, for a total of twelve variations of audit reports. The amendment was approved at the January 2005 Board and approved by the securities commissions on December 19, 2005. Awaiting AMF approval.

**Auditors’ Report on Financial Statements - Part II:** The objective of the amendment to Form 1 seeks to make a housekeeping amendment to the Part II Auditors’ Report in Form 1 by allowing a change to the current prescribed audit opinion to reflect new CICA Handbook Section 5600 as mandated by the CICA profession. It is proposed that the current Part II Auditors’ Report be repealed and replaced with the new requirements as set forth by the CICA. The amendment was approved at the January 2006 Board and approved by the securities commission on August 1, 2006. Awaiting AMF approval.

**Guidelines for the Client Application Forms:** The objective of the amendments to Form No. 2 seeks to replace it with guidelines that outline the type of information that should be obtained from clients when opening a new account. The guidelines will be tailored to each type of account since different requirements exist depending on whether a retail account, institutional account or an account that is exempt from the suitability requirement is being opened. The amendments were approved at the April 2006 Board and have been submitted to the securities commissions for approval.

**Rules Under Development**

**Complaint Handling Project:** IDA staff are reviewing the IDA rules on complaint handling at Member firms. The IDA issued a notice on December 20, 2006 on some of the current rules, expectations and industry best practices on the manner in which complaints should be handled at Member firms. The notice will be followed in 2007 by proposed revisions to the IDA’s rules to provide timelines, a possible requirement to designate one or more individuals to oversee the Member’s complaint handling process, and further clarification on the IDA’s complaint handling standards for Member firms.

For more information, please contact: Richard Corner
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(416) 943-6908 or rcorner@ida.ca

**New Members**

The IDA welcomes its newest Member firms:

**Evergreen Capital Partners Inc.**
*Effective January 31, 2007*

**Gateway Securities Inc.**
*Effective January 31, 2007*

**OMG Wealth Management Inc.**
*Effective November 23, 2006*
Enforcement Update

October 24, 2006 to February 28, 2007

Young Ho Kim (Bulletin 3578)

Violation: Mr. Kim admitted that he:

- effected discretionary transactions in two joint accounts without the accounts having been approved and designated as discretionary accounts by his Member firm; and
- attempted to personally settle a client complaint without the knowledge or consent of his Member firm.

Penalty: $20,000 fine and $5,000 in costs, must disgorge $2,168 in commissions, prohibited from seeking registration approval with any Member firm for a period of six months, is subject to close supervision for a period of 12 months upon any subsequent re-entry into the industry and must rewrite and pass the Conduct and Practices Handbook exam.

David Wayne Gradidge (Bulletin 3579)

Violation: Mr. Gradidge admitted that he:

- purchased real estate with a client without the knowledge, consent or authorization of his Member firm;
- loaned funds to a client without the knowledge, consent or authorization of his Member firm;
- commingled his personal funds with those of a client and together purchased not pro-eligible securities in his client’s investment account;
- loaned funds to a client without the knowledge, consent or authorization of his Member firm; and
- sold real estate to a client without the knowledge, consent or authorization of his Member firm.

Penalty: $60,000 fine and $5,000 in costs, must disgorge $5,250 in commissions and profits, prohibited from personally purchasing any new issue securities of any publicly traded corporation or income trust for a period of 24 months, is subject to close supervision for a period of 12 months and must rewrite and pass the Conduct and Practices Handbook exam.

Stephan Katmarian

Violation: An Appeal Panel dismissed an appeal brought by Stephan Katmarian. The appeal was of two decisions of a Hearing Panel of the Ontario District Council. The first found that Mr. Katmarian, along with two others, participated in a ‘mark-up scheme’ with shares of a firm for the purposes of unduly benefiting one Rampart client to the detriment of other Rampart clients. In addition, Mr. Katmarian, together with another individual, failed to use due diligence relative to a group of clients who opened accounts for the purpose of purchasing shares in three private corporations which were found to be part of an RRSP stripping scheme. Mr. Katmarian also appealed the sanctions imposed, which included a ban from registration for a period of 15 years, a total fine of $275,000, disgorgement of commissions of $47,983.50 and $85,875.27 in costs.

Denes Luciano Fransesco Peroni and Robert Paul Joseph Hétu (Bulletin 3588)

Violation: A Hearing Panel found that Mr. Peroni and Mr. Hétu

- failed to advise their Member firm of the true cost of three advertising campaigns carried out in cooperation with three mutual fund companies; and
- misrepresented to their Member firm that an advertisement had appeared 12 times in a newspaper when it had only appeared four times.

Penalties: Fined $25,000 each and must jointly pay $50,000 in costs, suspended in all capacities for a period of nine months and must rewrite and pass the Conduct and Practices Handbook exam.

Canaccord Capital Corporation, Donald Grant Macdonald and Paul Peter DiPasquale (Bulletin 3589)

Violation: Canaccord admitted that it:

- failed to have proper systems, procedures and personnel in place to ensure that effective supervision of the activities at one of its Vancouver branches was achieved; and
• failed to properly supervise the activities of a former Registered Representative at Canaccord.

Mr. Macdonald and Mr. DiPasquale admitted that they:

• while registered in supervisory positions at Brink Hudson & Lefever Ltd. and subsequently Canaccord, failed to effectively supervise the activities of a former Registered Representative.

Penalties: Canaccord is fined $500,000. Mr. Macdonald is fined $125,000 and has agreed to never apply for registration in any capacity with an IDA Member firm. Mr. DiPasquale is fined $100,000, suspended from acting as a Branch Manager for a period of six months, must rewrite and pass the Branch Managers Course, and is permanently prohibited from acting in any higher supervisory position, other than Branch Manager, with an IDA Member firm. In addition, Canaccord, Mr. Macdonald and Mr. DiPasquale must pay $25,000 in costs.

Stephen Brook Toban

Violation: A Hearing Panel found that Mr. Toban:

• facilitated the opening of investment accounts for as many as 35 non-Canadian residents, some of whom had criminal or regulatory disciplinary histories, without making diligent inquiries to ensure that each client’s reason for opening an account was legitimate, and without making diligent inquiries to ascertain that each client intended to use the account for legitimate investment purposes;
• facilitated certain transactional activity in the accounts of the 35 non-Canadian residents noted above without making diligent inquiries to ensure the legitimacy of the transactions in circumstances which should have called the transactional activity into question because it was peculiar, suspicious or appeared to be consistent with market manipulation, deception or other improper market related activity; and
• effected transactions in a client’s account based on instructions he accepted from an individual who was not authorized to trade in the account.

Penalty: A penalty hearing was held on December 20, 2006.

RBC Dominion Securities Inc.
(Bulletin 3590)

Violation: RBC Dominion Securities admitted that it failed to maintain its risk adjusted capital at a level greater than zero.

Penalty: $80,000 fine and $10,000 in costs.

Credifinance Securities Limited
(Bulletin 3591)

Violation: A Hearing Panel concluded that Credifinance failed to co-operate with the IDA with regard to two specific requests during the course of an investigation into the conduct of three registrants at Credifinance. Credifinance is appealing the decision of the Hearing Panel.

Penalty: $50,000 fine and $15,000 in costs.

Anthony Zarkadoulas
(Bulletin 3596)

Violation: Mr. Zarkadoulas admitted that he:

• caused to be transferred, without authorization, certain funds from the account of one client to cover the losses in another client’s account; and
• provided inaccurate, false or misleading information to the IDA regarding the circumstances of his termination of employment.

Penalty: $50,000 fine, $16,600 in costs and prohibited from re-approval by the IDA in any capacity for a period of five years.

Savitri Shamseer
(Bulletin 3599)

Violation: Mrs. Shamseer admitted that she:

• conducted discretionary trades in a client account without the account being specifically approved and accepted in writing as a discretionary account; and
• failed to use due diligence to ensure that trades conducted in the same client account were suitable based on factors such as the clients’ financial situation, investment knowledge, investment objectives and risk tolerance.

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Jean-Louis Trudeau

Violation: A Hearing Panel found that Mr. Trudeau:

- failed to use due diligence to ensure that the acceptance of orders for the accounts of four clients were within the bounds of good business practice; and
- failed to use due diligence to ensure that he learned the essential facts relative to four clients, and to every order or account accepted.

Penalty: The penalties imposed against Mr. Trudeau will be determined at a penalty hearing to be set at a future date.

Yusuf Osman (Bulletin 3602)

Violation: Mr. Osman admitted he conducted his business consistent with the registration of a Portfolio Manager without being registered as such.

Penalty: $40,000 fine, $1,000 in costs, suspended from approval with the IDA for a period of one month and upon re-employment with an IDA Member firm, he is to be under strict supervision for a period of nine months and must rewrite and pass the Conduct and Practices Handbook exam.

Robert Faiello (Bulletin 3605)

Violation: Mr. Faiello admitted that he:

- unknowingly facilitated a manipulation by accepting trade orders from one of his clients for shares of Pender International Inc. (Pender); and
- failed to exercise due diligence to learn and remain informed of the essential facts to a client and his respective trade orders in Pender.

Penalty: $20,000 fine and $5,000 in costs, prohibited from re-approval by the IDA in any capacity for a period of two years and must rewrite and pass the Conduct and Practices Handbook exam within six months from any subsequent registration with an IDA Member firm.

Simon Schillaci (Bulletin 3609)

Violation: A Hearing Panel found that Mr. Schillaci failed to:

- adequately supervise the account management activities of two client investment accounts;
- maintain adequate supervision records; and
- establish appropriate procedures and controls for effective supervision of the registrants of his Member firm.

Penalty: $15,000 fine and $10,000 in costs and is required to successfully complete the Effective Management Seminar and the Options Supervision Course within one year of the effective date of the decision or face immediate suspension from approval as Branch Manager.

Thomas Stuart Clarke (Bulletin 3611)

Violation: Mr. Clarke admitted that he:

- conducted unauthorized trading in two client accounts;
- issued false and misleading account documents which misrepresented the holdings in the accounts of the two clients;
- forged the signatures of the two clients; and
- filed false hold mail authorizations without the knowledge or consent of the two clients.

Penalty: $55,000 fine, $10,000 in costs and is prohibited from approval to act in any registered capacity with an IDA Member firm for a period of one year. Following the one year suspension, Mr. Clarke will be permitted to resume his employment at Caldwell Securities Ltd. (Caldwell) in a registered capacity and he will be subject to the following restrictions and conditions on his registration:

- all trading must have prior approval from a Caldwell Director;
- he shall only enter the premises of Caldwell when he is accompanied by another employee of Caldwell;
• the CEO of Caldwell or his designate will monitor the securities in his client accounts on a daily and monthly basis;
• any client account generating in excess of $1,500 per month in commissions will be reviewed by the CEO of Caldwell or his designate;
• he will only sell packaged products, Investment Management Services, or mutual funds; and
• unsolicited orders from clients must have prior approval of Caldwell.

In addition, the CEO of Caldwell or his designate will file a report on a monthly basis with the IDA in an agreed upon form which confirms Caldwell’s compliance with the restrictions. The report will also confirm whether Mr. Clarke, to Caldwell’s knowledge, is conducting himself in accordance with the restrictions. Further, Mr. Clarke agrees that in the event that he does not conduct himself in accordance with the restrictions that govern his registration and in accordance with good business practices as determined by the CEO of Caldwell, his designate or the IDA, he will immediately surrender his registration as a Registered Representative and will not re-apply to be a Registered Representative. All of the restrictions and conditions noted above will continue to apply for the duration of Mr. Clarke’s registration with the IDA. Serious financial losses were suffered by the clients as a result of the unauthorized trading. The clients have been reimbursed for their losses by Mr. Clarke and Caldwell.

For more information, please contact:
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Compliance and Legal Section continued...

Member Regulation Notice MR0435 was issued on November 30, 2006, and outlines the regulators’ expectations of the compliance function.

For more information, please contact:
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Complaint Handling Project

The IDA is reviewing its rules on complaint handling at Member firms. The IDA issued a notice on December 20, 2006 on some of the current rules, expectations and industry best practices on the manner in which complaints should be handled at Member firms. The notice will be followed this year by proposed revisions to the IDA’s rules to provide timelines, a possible requirement to designate one or more individuals to oversee the Member’s complaint handling process, and further clarification on the IDA’s complaint handling standards for Member firms.

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The Investment Dealers Association of Canada is the national self-regulatory organization of the securities industry. The IDA’s mission is to protect investors, foster market integrity and enhance the efficiency and competitiveness of the Canadian capital markets.

**investment dealers association of Canada**

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Ce rapport est aussi disponible en français sur demande.