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Joint Securities Industry Committee On Conflicts of Interest - Implementation of Recommendations

The Joint Securities Industry Committee on Conflicts of Interest released its final report (the "Report") on September 18, 1997. **This Notice to Members implements the first stage of the Report's recommendations: rules requiring client priority for the issuance of securities via private placement and restrictions on the abridgement of hold periods.**

The SROs have drafted rules implementing the Report's recommendations. These rules have been approved by the Boards of each of The Alberta Stock Exchange, the Montreal Exchange, The Toronto Stock Exchange, the Vancouver Stock Exchange and the Investment Dealers Association and are currently being considered for approval by the Canadian Securities Administrators.

The rules include: (1) a requirement to aggregate the holdings of a 'pro group' in all securities and to disclose those holdings in trade confirmations, research reports and monthly reports compiled by the exchanges; (2) the establishment of client priority rules for private placements so that a private placement must be sold to eligible clients before being offered to Member employees; (3) a prohibition against the abridgement of those hold periods where the pro group holds 20% or more of the issued and outstanding securities of the issuer subject to the hold period; and (4) a requirement to engage an independent underwriter when the pro group owns 20% of the securities of an issuer or exercises influence over the issuer or is influenced by the issuer.

The Executive Committees of the SROs have indicated their expectation that the Report's recommendations be implemented in the meantime, as quickly as possible to the extent possible. The cornerstone of the Report's recommendations is the calculation and disclosure of pro group holdings. Calculation and disclosure will require a significant investment in technology and systems on the part of the SROs and the Members. The SROs are developing a central system to receive data on pro group holdings from Members, provide on-going market capitalization data for companies listed on all Canadian exchanges, and calculate the percentage pro group holdings based on this data for the purposes of disclosure.

Implementation of disclosure rules will be phased-in in consideration of the time needed to develop these systems and the resources currently being devoted to Year 2000 systems issues.

The Association released a Member Bulletin on December 15, 1997 indicating that Members were encouraged to proceed with early implementation of the Report's recommendations,

particularly the client priority, underwriting conflict of interest and hold period recommendations. **At this time, Members must begin compliance with the client priority and hold period rules.**

Client Priority:

The Association will now require Members to grant priority to clients in private placements where the Member is acting as underwriter, agent or advisor or where pros in the Member firm, hold 20% or more of the issued and outstanding securities of the issuer. The existing definition of 'pro' in SRO rules should be used in compliance with this requirement. Members must have in place procedures to ensure that in these circumstances, pros do not take up any portion of the private placement unless those securities have first been offered to eligible Member clients. Members must make a reasonable effort to inform existing, eligible clients of the availability of the private placement.

Hold Periods:

The exchanges will not allow securities held by pros in the Member firm and which are subject to a hold period to be qualified for resale by subsequent prospectus where pros hold 20% or more of any class of voting or equity securities of the issuer *unless* the securities were issued pursuant to a private placement which was acceptable by an exchange and the issuance price of the private placement is greater than 80% of the public offering price.

The Association will continue to update Members on the progress of full-implementation of the rules.

Any questions on the above should be addressed to Keith Rose, Vice President, Regulatory Policy at (416) 943-6907.

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Association Secretary

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