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BULLETIN # 2817
January 29, 2001

By-Laws and Regulations

Amendments to By-law 35 Introducing Broker/Carrying Broker Arrangements

The Board of Directors has approved amendments to By-law 35 on April 15, 1998, **to be effective immediately.**

The amendments have replaced and expanded on existing introducing and servicing arrangements between member firms. The title has been repealed and replaced by “INTRODUCING BROKER/CARRYING BROKER ARRANGEMENTS”. A written contract in a form prescribed from time to time by the Association should be entered and only after the approval by the Senior Vice-President, Member Regulation can the introducing broker/carrying broker arrangement come into effect (35.1(e) (i)).

Type 1 and Type 2 introducing brokers continue to be restricted to one arrangement (35.1(e) (ii)) (with the only exception being the currently allowed arrangement for futures contracts and options, and the arrangement for futures and options is also allowed in Type 2, Type 3 or Type 4). Introducing Type 1 or Type 2 arrangement shall not fully service any part of its securities-related activities (35.1(e) (iii)). And Type 1 introducing brokers are required to clear all trades through the carrying broker (35.1(e) (iv)).

In addition, in the “Required Disclosure of the Opening of Client Accounts” of Type 1 (35.2 (k)), both disclosure of the arrangement to the client and client acknowledgement of the disclosure are required as already stated in (35.3 (k)), Type 2 arrangement.

The amendments expand the ability of Type 3 and Type 4 introducing brokers to enter into introducing broker/carrying broker arrangements. Type 3 or Type 4 Arrangement may enter into more than one introducing broker/carrying broker arrangement and may also fully service part of its securities-related activities (35.1(e) (v)). In the Section “Required Disclosure of the Opening of Client Accounts”, only disclosure is required in Type 3 and Type 4 arrangements (35.4 (k) and (35.5(k))).

By-law 35.1 is further amended by replacing “each of such Member’s Partners, directors ...” with “each such introducing or carrying broker’s partners, directors ...” in subparagraph (f) to capture SRO members who are not IDA members and to bind their partners, directors, shareholders and employees to Association Rules. Subparagraph 35.1 (h) has been added to grant discretion to the District Council to exempt a Member from the requirements of the By-

law.

The amended By-law 35, along with the detailed changes in By-law 35 can be found in Attachment #1.

Suzanne M. Barrett
Association Secretary