INVESTMENT DEALERS ASSOCIATION OF CANADA

bulletin

ASSOCIATION CANADIENNE DES COURTIERS EN VALEURS MOBILIÈRES

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For distribution to relevant parties within your firm

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By-Laws and Regulations

Internal Control Policy 3, Statement 2 - Early Warning Monitoring and Reporting

The Board of Directors of the Association has approved amendments to Internal Control Policy 3, Statement 2, Early Warning Reporting to be effective immediately.

The objective of early warning is to measure, in as many ways as possible, the characteristics, which are likely to identify a firm heading into financial trouble and to impose a series of restrictions and sanctions to reduce further deterioration. The sanctions, including rigorous regulatory scrutiny, are intended to get a firm out of early warning and prevent a subsequent capital deficiency. Early warning measures are defined in IDA By-law 30, and including profitability, capital and liquidity tests.

The current rule does not require a member firm to immediately report early warning triggers other than month-end. This is inconsistent with the intent and purpose for the implementation of the early warning system as an "advance warning" of member firms encountering financial difficulty as only month-end regulatory filings provide any details of member firms triggering early warning.

Consistent with the current Regulation 17.1 for member firms to immediately report a capital deficiency occurrence, it is proposed that member firms also be required to immediately report early warning level 1 and/or level 2 capital and liquidity test violations triggered intra-month so that the IDA may monitor and take remedial action as required to prevent the further deterioration of the financial condition of the firm.

A copy of the amendment is attached.

Ken Nason
Association Secretary

INVESTMENT DEALERS ASSOCIATION OF CANADA
EARLY WARNING MONITORING AND REPORTING

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

1. Internal Control Policy 3, Statement 2, Sections 5 and 6 are amended as underlined in the

attachment.

PASSED AND ENACTED BY THE Board of Directors this 19th day of June 2001 to be effective on a date to be determined by Association staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA
Early Warning Monitoring and Reporting

The section entitled "Minimum Required Firm Policies and Procedures" of Internal Control Policy Statement 2 of Policy No. 3 is amended as follows (changes are marked):

"**Minimum Required Firm Policies and Procedures**

1. The Chief Financial Officer is responsible for continuous monitoring of the capital position of the firm to ensure that at all times Risk Adjusted Capital is maintained as prescribed by IDA regulation.

2. The firm's planning process recognizes the projected capital requirements resulting from current and planned business activities.

3. Activity limits for the major functional areas of the firm (such as capital markets, principal trading, borrowing/lending etc.) are designed to ensure that the combined operations of the firm maintain at least the minimum required amount of risk adjusted capital.

4. Such activity limits are approved by senior management and communicated to the executives responsible for the various major functional areas. Actual performance is compared to such limits by the Chief Financial Officer or designated person assigned the task of monitoring the capital position, and breaches are reported promptly to senior management

5. At least weekly, but more frequently is required (e.g. the firm is operating close to early warning levels or volatile market conditions exist) the Chief Financial Officer or designated person assigned the task for monitoring the capital position documents that he/she has:

   (a) received management reports produced by the accounting system showing information relevant to estimation of the capital position;

   (b) obtained other information concerning items that, while they may not yet be recorded in the accounting system, are likely to significantly affect the capital position (e.g. bad and doubtful debts, unreconciled positions, underwriting and inventory commitments and margin requirements);

   (c) estimated the capital position, compared it to planned capital limits and the prior period and reported adverse trends or variances to senior management;

   (d) estimated the application to the Member of the liquidity and capital tests under the early warning calculations for Level 1 and/or Level 2 of By-law 30. In addition, at least monthly estimate the application of the profitability tests under the early warning calculations for Level 1 and/or Level 2 of By-law 30.

6. Senior Management takes prompt action to avert or remedy any projected or actual capital deficiency and reports any deficiencies, when required, immediately to the appropriate regulators. In addition, senior management promptly reports to the appropriate regulators any conditions or circumstances that are, or should be, apparent from the actions required to be performed under this Statement that could require the Member to be designated in early warning Level 1 or Level 2 in accordance with By-law 30 because of the application of the liquidity, capital or profitability tests.

7. The month-end estimate of required and risk adjusted capital is reconciled to the Monthly Financial Report submitted for regulatory filing. Material discrepancies are investigated and steps taken to preclude re-occurrence.

8. At least annually there is a documented supervisory review of the firm's management reporting system related to capital, to identify and implement changes required to reflect developments in the business or in regulatory requirements."