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bulletin



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For distribution to relevant parties within your firm

BULLETIN #2974

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By-Laws and Regulations Housekeeping Amendment to Policy No. 5 - Code of Conduct for IDA Member Firms Trading in Domestic Debt Markets

The Board of Directors of the Association has approved an amendment to Policy No. 5, Code of Conduct for IDA Member firms Trading in Domestic Debt Markets, to be effective immediately.

Policy No. 5 was approved by the relevant securities commissions in late 1998. The purpose of Policy No. 5 is to detail the standards expected of Members of the Association and their counterparties for trading in domestic debt. As such, it acts as a single reference source to supplement the existing requirements set out in the Association Rule Book.

The IDA has redrafted the section pertaining to the surveillance of the domestic debt markets following the request for additional information on holdings of a specific security through the issuance of the Net Position Report in January 2001. Follow-up discussions were held with market participants, the Bank of Canada and the Department of Finance and the decision was made to redraft section 5.2 - Surveillance.

The objective of the rule change is to formalize the complaint process by mandating that complaints under Policy No. 5 originate with senior officials at member dealers. Complaints are to be raised with a senior official of either the IDA or the Bank of Canada. The change includes the removal of specific examples of potential instances of manipulative practices due to some market participants misusing these examples as actual thresholds that denote an infraction of the rules or manipulative activity.

A copy of the amendment is attached.

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Association Secretary

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INVESTMENT DEALERS ASSOCIATION OF CANADA

POLICY NO. 5 – CODE OF CONDUCT – TRADING IN DOMESTIC DEBT MARKETS

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:

Section 5.2 of IDA Policy No. 5 Code of Conduct for IDA Member Firms Trading in Domestic Debt Markets is repealed and replaced as follows:

5.2 Surveillance

Careful surveillance of the Domestic Debt Market and the trading activities of market participants is required to ensure that the objectives laid out in this Policy are achieved. Due to the nature of the Domestic Debt Market, Members and their affiliates have the responsibility to self-monitor their conduct. In this regard, Members should report promptly to the Association or any other authority having jurisdiction, including the Bank of Canada, breaches of the Policy or suspicious or irregular market conduct. Alleged breaches of the Policy should be reported to senior officers of the Association or the Bank of Canada by the executive responsible for the debt operations of the Member. In addition, the Association's own investigative powers and resources will be applied to review market activity in order to identify irregular conduct.

As part of the surveillance, the Association may require the Member and its affiliates to file the IDA Net Position Report. Net Position Reports may be requested by either the Bank of Canada (for Government of Canada securities), or by the Association. The request for a report, and associated requests for information required to clarify individual Member's reports, would be undertaken as a preliminary step to identify large inventory holdings of securities that could have allowed a Member to have undue influence or control over the Government of Canada, provincial or corporate debt markets.

The circumstances that could trigger a request for Members to file a Net Position Report include all activities deemed to be detrimental to the liquidity and integrity of the Domestic Debt Market. Market integrity concerns may be manifested in any one of, but not limited to, the following ways: an unusual concentration of holdings in certain outstanding securities, whether directly by a Member or in concert with others (holdings which exceed 35 per cent of the outstanding supply may be one example of unusual concentration); an unusual differential in the traded yield between issues of securities of similar maturity; an unusual gap between the repo rate and the overnight rate for the same type of securities for a sustained period of time (a gap greater than 200 b.p. may be one example of an unusually large differential); or unusual trading volumes in particular securities. The foregoing are only examples of circumstances where reporting may be required or investigations instituted; they are not intended to define thresholds of acceptable conduct or practices. Reporting may be required or an investigation instituted if, in any particular

situation, the principles and standards of this Policy have, in the opinion of the IDA or the Bank of Canada been contravened.

The results of a Net Position Report, and associated information requested to clarify individual Member's reports, will be used to determine whether any follow up investigation is required. The Association and the Bank of Canada will base this decision on whether large holdings of securities reported in the Net Position Report had been used to influence market direction for the Member's gain in a manner detrimental to the liquidity and integrity of the Domestic Debt Markets. The Association in collaboration with the Bank of Canada will promptly inform Members of the results of the Net Position Report survey and whether an investigation will proceed."

PASSED AND ENACTED BY THE Board of Directors this 17th day of October 2001, to be effective on a date to be determined by Association staff.