

MEMBER REGULATION



INVESTMENT DEALERS
ASSOCIATION OF CANADA

notice



ASSOCIATION CANADIENNE DES
COURTIERS EN VALEURS MOBILIÈRES

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ATTENTION:

Ultimate Designated Persons
Chief Financial Officers
Panel Auditors

Distribute internally to:

- Corporate Finance
- Credit
- Institutional
- Internal Audit
- Legal & Compliance
- Operations
- Registration
- Regulatory Accounting
- Research
- Retail
- Senior Management
- Trading desk
- Training

Principal and Agent Relationships

Further to IDA By-law No. 39 and IDA Bulletin # 3153 dated May 20, 2003, IDA Members planning to have principal/agent relationships are required to take the steps described below.

Members having existing principal/ agent relationships with registered representatives pursuant to Member Regulation Notice MR-086 dated July 18, 2001 may not enter into new ones until they are in compliance with the requirements of By-law No. 39 and this notice. Furthermore, they must ensure that such existing principal/agent relationships are in compliance with By-law No. 39 by June 30, 2003.

1. Agreement with the Association

Before entering into any principal/agent relationship, a Member must enter into an agreement with the Association pursuant to By-law 39.4(o). The form of that agreement is Appendix B to IDA Bulletin #3153.

The agreement should be signed under seal by an authorized partner, officer or director of the Member and sent to the Sales Compliance Department at the IDA Office having responsibility for the region in which the Member's head office is located. The contents of the agreement may not be changed.

When filing the completed agreement – and as a prerequisite to the agreement's acceptance by the IDA – a Member must include a covering letter outlining satisfactory plans for compliance with the disclosure requirements of sections 4 and 7 of the agreement. The Member must also file its revised New Client Application Form containing the disclosure required under Paragraph 6 of the Agreement. If the Member wants to continue using current supplies of existing forms it should also report its interim plans for providing the disclosure to new clients required under Paragraph 6 of the agreement.

2. Agency Agreements

Pursuant to By-law 39.4(n), before entering into any principal/agent relationship, a Member must obtain IDA approval of the form of its agency agreements. The agency agreement must contain all of the provisions in By-law 39.4(a) to (m) and no provisions inconsistent with those sections. A sample agreement compliant with this requirement is included as Appendix A to IDA Bulletin #3153.

The Member must also file a certificate of an officer or director confirming that the agreement is in compliance with By-law.

Members may draft their own agency agreements provided they contain the provisions of By-law 39.4(a) to (m). In order to assist IDA Staff in the review process, Members drafting their own agreements should consider providing IDA Staff with a concordance showing the provisions that meet each of the requirements. Where an agreement's compliance with By-law 39.4(n) is unclear, Association staff may request that the Member obtain and file a legal opinion that it does comply.

A Member must obtain Association approval of any change of the form of its agency agreement. The strictly commercial details of the agreements do not require Association approval.

Members should file their form of agreement and certificate with the Sales Compliance Department IDA Regional office responsible for the region in which the Member's head office is located.

3. Financial Institution Bond

To comply with By-law 39.4(f) a Member must have an "agent" rider added to its Financial Institution Bond policy in order to ensure that all its agents and the employees of those agents are covered by its FIB policy (Form 14) to the same extent as the firm's own individual employees. The Financial Compliance Department will review Members' compliance with By-law 39.4(f) during its regular Member examinations.

4. Special Reporting Requirements

Members using principal/agent relationships are required to report to the Association Vice President of Sales Compliance and Registration any compliance issues arising from the principal/agent relationships and how they were resolved. The IDA will be reporting to the Securities Commissions on all such compliance issues.

Pursuant to IDA Policy No. 8, Members are required to report, in a special category, any public complaints that are uniquely related to agency relationships. The Association's Enforcement Department will be arranging for such a COMSET category to be introduced.

5. Compliance with Tax Laws

Pursuant to By-law 39.4(q), a Member must provide satisfactory evidence to the Association that arrangements between it and its agents comply with applicable tax laws. Such evidence should be filed with the Sales Compliance Department in the IDA Regional Office in which the Member's head office is located. Such evidence may take the form of a legal opinion or a Canada Customs and Revenue Agency ruling.

6. Books and Records

Section 39.4(g) requires that all books and records prepared and maintained by the agent be in compliance with By-law 17, Regulation 200 and all applicable legislation. Members are reminded that this provision covers all other record keeping requirements contained in the By-laws, Regulations and Policies of the Association including, among others, the maintenance of new account documents under Regulation 1300 and compliance review or approval records under Policy 2.

7. Individual Registration Filings

Registration applications for individuals in an agency rather than an employment relationship with a Member must disclose that they are agents. The disclosure must be made on the “Current Employment” screen of NRD [by entering “Agent” as part of the disclosure](#) in the text box for the response to:

Describe the type of business or employment and your duties. If you are seeking registration or acceptance for which specified experience is requirement, provide detailed experience below (for example, level of responsibility, value of accounts under direction and research experience).

Members are reminded that all regular registration filings apply equally to agents, including notification of business locations or outside employment and uniform termination notices.

8. Montreal Exchange Audit Jurisdiction Members

Any Member in the audit jurisdiction of the Montreal Exchange having or wishing to establish principal/agency relationships should file the relevant documents noted in this bulletin with the Montreal Exchange. Such Members must indicate in the manner described in item 7 above, in paper filings for registration/approval in Quebec of individual agents, or NRD filings for registration/approval of agents in other provinces, that the individual is an agent.