

MEMBER REGULATION



INVESTMENT DEALERS
ASSOCIATION OF CANADA

notice



ASSOCIATION CANADIENNE DES
COURTIERS EN VALEURS MOBILIÈRES

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MR0267

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ATTENTION:

Ultimate Designated Persons
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Client Priority in TSX Venture Private Placements

It is a well-established principle that the interests of clients take priority over those of registrants. IDA staff has received queries from Members as to the exact application of the rules, particularly given the increased financing activity on the TSX Venture Exchange.

The key IDA By-law on client priority is 29.3A, which reads:

“A Member shall give priority to orders for the accounts of customers of the member over all other orders for the same security at the same price. The phrase ‘orders for the accounts of customers of the Member’ shall not include an order for an account in which the Member or an employee of the Member has an interest, direct or indirect, other than an interest in a commission charged.”

The Association’s Bulletin 2508 issued September 11, 1998, implemented client priority rules for Private Placements. In part, the notice reads:

“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 the pros in the Member firms hold 20% or more of the issued and outstanding securities of the issuer.”

The By-Law and other related rules are in the process of being amended. The status of those rules can be found on the Regulatory Proposals section of the Association’s website.

TSX Venture has a similar rule, F.2.29 (1), which in part reads:

“Clients’ orders shall have priority over Pro Group orders for a private placement (as defined in section A1.01) if:

- a. the member has entered into any agreement, commitment, arrangement or understanding with the issuer to act as advisor, agent or underwriter or member of a selling group in respect of the private placement or subsequent offering of securities; ...”*

... 2

It is the view of the Association that the payment of a finder's fee or any other form of compensation or remuneration in connection with the distribution of securities (except sales commissions on subsequent resales of such securities) is evidence that the Member is acting in the capacity of an adviser, agent or underwriter in connection with the transaction. Consequently, client priority rules are triggered and reasonable efforts must be made to ensure that client orders are honoured in priority to non-client orders.