



INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

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RE: Request for Comments: Rules Notice 11-0164 “Plain language rule re-write project – Debt Markets and Inter-Dealer Bond Brokers” (the “Notice”)

The Investment Industry Association of Canada (IIAC) appreciates the opportunity to comment on the Notice, issued on May 27, 2011.

The IIAC solicited feedback from Members to identify and discuss issues pertaining to the proposals in the Notice. We understand that individual Members may be providing separate and additional comments. We ask that IIROC consider the comments and request for clarification articulated by our Members. The IIAC would be happy to meet with IIROC staff to further discuss the issues raised in this letter.

General Comments

The IIAC is supportive of IIROC’s stated intentions for the plain language re-write of Debt Market and Inter-Dealer Bond Broker (“IDB”) rules, which is to “develop a set of rules that is more clear, concise and organized without changing the rules themselves” and

without “creating any new obligations for Dealer Members”. We appreciate that IIROC will be issuing separately for public comment Debt Market and IDB rules that it considers to require substantial revisions.

We have reviewed the Notice and view, that, while the proposals do not contain substantive revisions, some of the subtle changes in language may in fact create new obligations for Dealer Members – contrary to IIROC’s stated objective.

We outline below some of the proposals that we believe warrant additional clarity or explanation.

1. Proposed Rule 7203 Part 2 (i)

“Restrictions and controls for trading in the accounts of members’ personnel” has now become “restrictions of, and controls over, trading in non-client accounts”. This wording change broadens the Dealers’ responsibility beyond member firm employees and may require policy and/or technological changes at the Dealer Members. It also raises questions about the member firm’s ability to impose restrictions and controls on non-employees. The IIAC would welcome further clarification on the intention of this change.

2. Proposed Rule 7203 Part 2 (iv)

Policies dealing with “Prohibition of the use of inside information and practices such as front running, fair client priority and allocation standards” has become a Policy including separate sections as follows: a) a prohibition on the use of inside information, b) a prohibition of front-running and c) standards for fair allocation of new issues among clients. New language has been used in this section rewrite which may result in the new rule being more prescriptive. The new rule should not change the meaning and/or intent of the existing rule. We would expect that dealer members should continue to deal with allocation standards as set out in the policies and procedures of the firm.

3. Proposed Rule 7203 Part 2 (vi)

The Rule states that dealer firms must have “reasonable monitoring procedures to detect mark-ups or commissions that exceed the maximums allowed, and to ensure any deviation is justified.” We request confirmation that this requirement be applicable to retail accounts only. Additionally, IIROC’s *OTC Security Fair*

Pricing Rule and Confirmation Disclosure Requirement provides an exemption for all primary market transactions. The IIAC requests that clarifying language be added in this section of the Proposed Rule.

4. Proposed Rule 7204 (4)

The proposed Rule requires “Senior Management of the appropriate business management group of the Dealer Member must supervise its trading activities”. While we view the supervision activities to be of the utmost importance, the proposed language in the Rule may be somewhat prescriptive of the supervisory process. Given the varying organizational and business structures within IIROC Dealer Members, the Rule does not allow sufficient flexibility of supervisory responsibilities. A more workable approach is for the Rule to require Dealer Members to have policies and procedures to supervise its trading activities. We ask that IIROC consider making this change.

5. Proposed Rule 7212

Prohibited practices include the following statement: “a dealer member and its executives, partners, directors, employees and agents must not offer any consideration, including remuneration, gratuity or benefit, to any executive, director, employee, shareholder or agent of any client or any associate of any of them”. The existing rule (2800 4.3(f)) permits this activity provided that prior written consent is obtained. We would be grateful for an explanation for the removal of this qualifying phrase.

Conclusion

We hope that our comments will be considered in finalizing the Proposed Rules. We would be happy to meet with IIROC staff to discuss these matters further. Also note that while we have limited our review of the Notice to Proposed Rule 7200 (Debt Market Rules), we would encourage IIROC to engage in discussions with IDB representatives to obtain their views on proposed rule 7300 (Inter-Dealer Bond Brokers Rules).

Yours sincerely,

Jack Rando
Director, Capital Markets