

13.1.3 IDA By-law 2.4 – Housekeeping Amendments Regarding Membership

THE INVESTMENT DEALERS ASSOCIATION (IDA)

AMENDMENTS TO IDA BY-LAW No. 2.4 REGARDING MEMBERSHIP

I OVERVIEW

A Current Rules

By-law No. 2.4 requires all applications for Membership into the Association be accompanied by a \$10,000 non-refundable deposit on account of the Entrance Fee. If the application is successful, the balance of the Entrance Fee shall be collected in the amount of \$15,000. If the application is unsuccessful and is not approved or where the applicant withdraws the application, the Association shall retain the \$10,000 deposit.

B The Issue

The current by-law attempts to address the situation whereby an applicant withdraws their application for Membership before being voted on by District Council or the Board of Directors. At this point, the Association may have incurred substantial costs in reviewing the application in addition to the time spent by Association staff in reviewing the application and consulting with the applicant. The \$10,000 non-refundable deposit helps to offset the costs associated with the application process. However, as currently drafted the By-law does not address the situation where an applicant submits an application for Membership with the intent of becoming a Member sometime in the future but may not have the intention of proceeding with the application process on a timely basis. As such, the application process as structured is not limited to those applicants with serious intentions of becoming IDA Members forthwith.

C Objective

The objective of the proposed amendment is to limit the application process to those applicants with serious intentions of becoming IDA Members forthwith, and to provide an incentive to those applicants to complete the application process on a timely basis.

D Effect of Proposed Rules

The proposed amendments would help ensure that Association staff does not commit time and resources reviewing applications for Membership where the application is submitted without the intention of moving the Membership process forward on a timely basis. The proposed change would not alter the application process or change the cost of Membership for serious applicants.

II DETAILED ANALYSIS

A Present Rules, Relevant History and Proposed Policy

Present Rules

Prior to July 2004, all applications for Membership required a \$2,000 non-refundable deposit to help defray the costs of reviewing applications for Membership. This deposit did not accurately reflect the cost of the review process and an amendment was made in July 2004 that required all Membership applications be accompanied by a non-refundable deposit of \$10,000. The revised By-law was intended to act as an incentive so that only those applicants with serious intentions of becoming Members submitted applications. However, the amendment did not contemplate the situation whereby an applicant intends on becoming a Member at some point in time but does not intend to proceed with the application process on a timely basis.

Application Approval Process

The application process begins when an application and non-refundable deposit is submitted to and accepted for review by the Association Secretary. Once accepted, the application is reviewed by the Financial Compliance and Sales Compliance departments within the Member Regulation Division. Each department has a strict two week time period in which the review must be completed. The applicant is then provided with a detailed response outlining any deficiencies that exist in the application.

The Registration Department must also review the application and provide comments to the applicant within two weeks from the date the application is submitted to the National Registration Database. The applicant is required to correct all deficiencies and resubmit the information to the Association.

When the application is complete, IDA staff make a recommendation to the applicable District Council where the application is either approved, approved with conditions or refused. Approved applications are then submitted to the Board of Directors for approval

Proposed Rule Amendment

The proposed amendment would require that the application process for Membership be completed within a six-month time frame. Where the process is not completed within that time frame, the \$10,000 deposit would be forfeited to the Association and the applicant would be required to start the application process over by resubmitting a new application along with an additional \$10,000 non-refundable deposit. For the purposes of the proposed amendment, the application process will be considered to be completed when IDA staff are in a position to make a recommendation on an application to the applicable District Council.

B Issues and Alternatives Considered

No other alternatives were considered.

C Comparison With Similar Provisions

NASD Rule 1010 Series sets out the substantive standards and procedural guidelines for the entire Membership application process and the time frames associated with it. The process is very similar to that proposed under the IDA Rules although the NASD timeframes are more prescriptive. The Application process requires that all applications be processed within 180 days from the date the application is substantially completed. Applicants have 60 days to respond to the initial request for information and 30 days for any subsequent requests. Where any of these deadlines are not met the application may be cancelled and where the applicant wishes to continue to seek Membership they must resubmit all forms and fees.

D Systems Impact of Rule

There are no systems issues associated with the proposed amendment.

E Best interests of the Capital Markets

The Board has determined that the public interest rule is not detrimental to the best interests of the capital markets.

F Public Interest Objective

The proposal will not impact the public.

III COMMENTARY

A Filing in Other Jurisdictions

This proposed amendment will be filed for approval in Alberta, British Columbia, Manitoba, Ontario and Quebec will be filed for information in Nova Scotia and Saskatchewan.

B Effectiveness

The proposed change would deter applicants from submitting an application for Membership until such time as they intend to proceed on a timely basis. As such, Association staff would be available to devote their time in dealing with serious applicants.

C Process

The proposed change has been reviewed and approved by senior management.

IV SOURCES

IDA By-law No. 2.

NASD Rule 1010 Series.

V OSC REQUIREMENT TO PUBLISH FOR COMMENT

The Association has determined that the entry into force of this proposed amendment is housekeeping in nature. As a result, a determination has been made that this proposed rule amendment need not be published for comment.

Questions may be referred to:

Deborah Wise

Legal and Policy Counsel, Regulatory Policy

Investment Dealers Association of Canada

(416) 943-6994

dwise@ida.ca

**INVESTMENT DEALERS ASSOCIATION OF CANADA
AMENDMENTS TO BY-LAW NO. 2.4 - MEMBERSHIP**

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. Section 2.4 of By-law No. 2 is amended by adding the following paragraph at the end of the section:

“Furthermore, where for any reason the application process (excluding alternative trading system applications) has not been completed within six months from the date the application was submitted to and accepted for review by the Association Secretary, the \$10,000 deposit shall be forfeited to the Association and the applicant shall be required to start the application process over by resubmitting the application for Membership accompanied by an additional \$10,000 non refundable deposit. For the purposes of this section, the application process shall be considered to be completed, when staff are in a position to recommend to the applicable District Council the approval or refusal of the application.”

PASSED AND ENACTED BY THE Board of Directors this 20th day of October 2004, to be effective on a date to be determined by Association staff.