

**13.1.2 IDA Amendment to Regulation 1300.1 – Suitability and Institutional Accounts**

**INVESTMENT DEALERS ASSOCIATION OF CANADA  
AMENDMENT TO REGULATION 1300.1 – SUITABILITY AND INSTITUTIONAL ACCOUNTS**

**I OVERVIEW**

**A Current Rules**

Current suitability provisions are contained in Regulation 1300.1. Exemptions from the suitability requirement are also contained in Regulation 1300.1. Where a Member provides an order-execution only service for a particular transaction, without any recommendations to the client, the suitability requirement is not applied (if the Member complies with the policies and procedures set out in Policy No. 9 and receives Association approval).

Policy No. 4 Minimum Standards for Institutional Account Opening, Operation and Supervision was approved by the Board of Directors on January 19, 2005 and is in the process of being approved by the appropriate securities commissions. Section I.B (3) provides an exemption for institutional accounts from the suitability obligations of Policy No. 4 where a Member executes a trade on the instructions of another Member, a portfolio manager, investment counsel, limited market dealer, bank, trust company or insurer.

**B The Issue**

Regulation 1300.1(p) imposes a suitability requirement on Members. As Section I.B (3) of Policy No. 4 provides an exemption from this suitability requirement, this exemption should be referenced in Regulation 1300.1.

**C Objective**

The objective of the proposed amendment is to ensure that the exemption contained in Policy No. 4 is effective and consistent with Regulation 1300.1.

**D Effect of Proposed Rules**

The proposed amendment will ensure that the suitability obligation contained in Regulation 1300.1 is applicable in the appropriate circumstances and that any exemptions from this requirement are clearly set out in the same regulation.

**II DETAILED ANALYSIS**

**A Present Rules, Relevant History and Proposed Regulation**

**Present Rules**

Regulation 1300.1(p) contains the current suitability provision which requires dealers to consider such factors as a client's age, investment objectives, risk tolerance, investment knowledge, net worth and income in order to assess whether each transaction, recommended or non-recommended is suitable for the client.

Regulation 1300.1 also provides that a suitability determination is not required where the Member acts solely as an order-taker for a client on a particular transaction who executes a trade without a recommendation, provided that the dealer has met the requirements of Policy No. 9.

Policy No. 4 Minimum Standards for Institutional Account Opening, Operation and Supervision was approved by the Board of Directors on January 19, 2005. The Policy provides procedures for opening institutional accounts, account suitability review and supervision of these accounts.

The Policy defines institutional accounts and enumerates factors, which will be considered in determining whether the Member's suitability obligation owed to an institutional customer has been fulfilled.

Section I.B (3) provides an exemption for institutional accounts from the suitability determination where a Member executes a trade on the instructions of another Member, a portfolio manager, investment counsel, limited market dealer, bank, trust company or insurer.

## **Proposed Rule Amendment**

The proposed amendment would make it clear in Regulation 1300.1 that where a Member executes a trade on the instructions of another Member, a portfolio manager, investment counsel, limited market dealer, bank, trust company or insurer, the Member is exempt from the suitability obligation in the regulation. It will ensure that the exemption in Policy No. 4 is consistent with the provisions of Regulation 1300.1 and works in conjunction with the regulation.

### **B Issues and Alternatives Considered**

No other alternatives were considered.

### **C Comparison With Similar Provisions**

The exemption from the suitability requirements contained in Policy No. 4 was based on an examination of suitability relief contained in securities legislation among numerous provinces in Canada. The exemption in Policy No. 4 parallels those found in the securities legislation in some provinces, which does not require a suitability determination to be made by a dealer who executes a trade on the instructions of another dealer, investment counsel, portfolio manager or financial institution.

### **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 housekeeping rule is not detrimental to the best interests of the capital markets.

### **F Public Interest Objective**

According to the IDA's Order of Recognition as a self-regulatory organization, the IDA shall, where requested, provide in respect of a proposed rule change "a concise statement of its nature, purposes and effects, including possible effects on market structure and competition". Statements have been made elsewhere as to the nature and effects of the proposals with respect to the proposed amendments.

The general purpose of the amendment is:

- for such other purposes as may be approved by the Commission.

The proposal does not permit unfair discrimination among customers, issuers, brokers, dealers, Members or others. It does not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes.

An assessment has been made that the proposed amendment is housekeeping in nature.

## **III COMMENTARY**

### **A Filing in Other Jurisdictions**

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

### **B Effectiveness**

The proposed change would ensure that the exemption contained in Policy No. 4 works effectively with the suitability regime outlined in Regulation 1300.1.

### **C Process**

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

## **IV Sources**

IDA Regulation 1300 and proposed Policy No. 4.

**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:

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**INVESTMENT DEALERS ASSOCIATION OF CANADA**

**AMENDMENTS TO REGULATION 1300.1 –  
SUITABILITY AND INSTITUTIONAL ACCOUNTS**

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. Regulation 1300.1 is amended by:
  - (a) Replacing the text “Regulation 1300.1(r)” in Regulation 1300.1(p) with the text “Regulations 1300.1(r) and 1300.1(s)”;
  - (b) Replacing the text “Regulation 1300.1(s)” in Regulation 1300.1(r) with the text “Regulation 1300.1(t)”;
  - (c) Adding new section 1300.1(s) after Regulation 1300.1(r) as follows:

“Each Member that executes a trade on the instructions of another Member, portfolio manager, investment counsel, limited market dealer, bank, trust company or insurer, pursuant to Section I.B (3) of Policy No. 4 is not required to comply with Regulation 1300.1(p)”;
  - (d) Renumbering existing section 1300.1(s) to 1300.1(t).

PASSED AND ENACTED BY THE Board of Directors this 18th day of January 2006, to be effective on a date to be determined by Association staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA

AMENDMENTS TO REGULATION 1300.1 –  
SUITABILITY AND INSTITUTIONAL ACCOUNTS

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**Suitability Generally**

- (p) Subject to Regulations 1300.1(r) and 1300.1(s), each Member shall use due diligence to ensure that the acceptance of any order from a customer is suitable for such customer based on factors including the customer's financial situation, investment knowledge, investment objectives and risk tolerance.

**Suitability Determination Required When Recommendation Provided**

- (q) Each Member, when recommending to a customer the purchase, sale, exchange or holding of any security, shall use due diligence to ensure that the recommendation is suitable for such customer based on factors including the customer's financial situation, investment knowledge, investment objectives and risk tolerance.

**Suitability Determination Not Required**

- (r) Each Member that has applied for and received approval from the Association pursuant to Regulation 1300.1(~~ts~~), is not required to comply with Regulation 1300.1(p), when accepting orders from a customer where no recommendation is provided, to make a determination that the order is suitable for such customer.
- (s) Each Member that executes a trade on the instructions of another Member, portfolio manager, investment counsel, limited market dealer, bank, trust company or insurer, pursuant to Section I.B (3) of Policy No. 4 is not required to comply with Regulation 1300.1(p).

**Association Approval**

- (~~ts~~) The Association, in its discretion, shall only grant such approval where the Association is satisfied that the Member will comply with the policies and procedures outlined in Policy No. 9. The application for approval shall be accompanied by a copy of the policies and procedures of the Member. Following such approval, any material changes in the policies and procedures of the Member shall promptly be submitted to the Association.