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September 19, 2000

British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Securities Commission  
The Manitoba Securities Commission  
Ontario Securities Commission  
Office of the Administrator, New Brunswick  
Registrar of Securities, Prince Edward Island  
Nova Scotia Securities Commission  
Department of Government Services and Lands, Securities Division,  
of Newfoundland and Labrador  
Registrar of Securities, Government of Northwest Territories  
Registrar of Securities, Government of Nunavut  
Registrar of Securities, Government of the Yukon Territory

c/o John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West  
Suite 800, Box 55  
Toronto, Ontario M5H 3S8

And to:  
Claude St. Pierre, Secretary  
Commission des valeurs mobilières du Québec  
Tour de la Bourse  
C.P. 246, 22<sup>nd</sup> Floor  
Montréal, Québec H4Z 1G3

Dear Sirs and Madames:

**Proposed National Instrument 55-102 – System for Electronic Data on Insiders (SEDI)**

Attached please find a copy of the CBA's submission on proposed National Instrument 55-102. We thank you for granting us an extension in the deadline to submit our comment and apologize for any inconvenience this may have caused.

Yours truly,

Attachment (1)

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Dear Sirs and Madames:

**Proposed National Instrument 55-102 – System for Electronic Data on Insiders (SEDI)**

The Canadian Bankers Association appreciates this opportunity to provide you with our comments on proposed National Instrument 55-102 and also the proposed new forms - Form 55-102F1- the Insider Profile form and Form 55-102F2 in relation to third-party derivatives.

Our general comments on the proposed instrument are as follows:

### **SEDI should be encouraged, not mandatory**

We believe that SEDI should be encouraged, but it should not be mandatory. The current means of filing insider reports in a paper format should be permitted to continue. In the United States, insiders are permitted to file insider reports electronically but are not required to. As well, for an issuer with worldwide operations like a bank, there may be insiders in locations who may not have the means to access the site and file electronically as required by the proposed instrument. The proposed instrument provides a temporary hardship exemption that will permit an insider to make a filing in a paper format rather than in the SEDI format if short term technical difficulties arise in filing an insider report in SEDI format. Failing rescission of the mandatory provision, we recommend that the exemption be broadened and extended to allow for circumstances which may be less temporary.

### **Proposed implementation date**

The CSA anticipates the proposed system will be fully developed and ready to accept electronic filings by December 4, 2000 which date has been indicated in the proposed instrument as the effective date. We believe the December 4, 2000 implementation date is too ambitious. The proposed electronic filing and dissemination system should be pre-tested by user groups to confirm its effectiveness. When SEDAR was introduced, a trial period was in effect initially. We recommend that the proposed electronic filing and dissemination system be introduced initially on a trial basis, by posting the filing system on the securities commissions website for public trial and comments. The proposed trial period would allow time for insiders and issuers to gain confidence in the system's ability.

We believe the most appropriate time to implement SEDI would be summer 2001. We urge the CSA not to implement SEDI during the first calendar quarter as that is the time many insiders file annual insider reports pursuant to exemptions from the normal filing requirement granted by the CSA.

### **User-friendly system and Instruction Manuals**

We also recommend that the system be 'user-friendly' and provide on-screen prompts and help icons to assist the user if, for example, certain information/data fields are left incomplete while filing the report on-line. It is important to ensure that incorrect or incomplete reports are not inadvertently filed. We believe that the simplicity and ease of use of the proposed filing system is critical to ensuring and encouraging its use. We also recommend the publication and distribution of a manual/user-guide providing detailed instructions on the procedure for using the proposed electronic filing and dissemination system.

We also have some specific comments on the proposed Instrument and its Forms as

follows:

### **Filing an amended insider profile**

Section 2.2(3) requires an insider of a SEDI issuer that has filed an insider profile in SEDI format to file an amended insider profile in SEDI format within 10 days following any change in the information contained in its insider profile. The trigger for filing an amended insider profile could be something as unimportant as a change in the fax number. As well, insiders may be less inclined to provide optional information if any change in that information triggered a requirement for an amended profile. We submit that the trigger for an amended profile should be a change in required and not optional information. We recommend that this section be revised to require an amended insider profile updating all information within 10 business days following any change in material information.

### **Public access to Confidential Information**

We are concerned about the public's ability to access certain information that is considered to be confidential or personal. Item 7 and item 8 of Form 55-102F3, the Issuer Event Report, permits an issuer to make confidential remarks to the securities regulatory authorities and to other insiders which would not be available for public inspection. As well, Schedule A to the Companion Policy 55-102 identifies that certain personal information about an insider in the insider's profile will not be made available for public inspection. The CSA's notice suggests that access to this information will be controlled through the use of alpha-numerical access keys. We strongly urge the CSA to initiate implementation of SEDI with a trial period to test, among other things, the integrity of the security access keys. We appreciate that our concern regarding the Issuer Event Report can be dealt with by not providing the information in item 7 or item 8. However, issuers may find it convenient or useful to communicate certain information through the use of the Issuer Event Report. The proposed trial period would allow time for insiders and issuers to gain confidence in the system's ability to ensure limited access to confidential or personal information.

### **Form 55-102F1 - the Insider Profile**

We would appreciate clarification regarding the application of item 7 in Form 55-102F1, the Insider Profile. Under s. 1(8) of the Securities Act (Ontario), a bank's directors and senior officers are considered to be insiders of a company (ABC Co.) in which the bank becomes an insider. The director or senior officer must provide an insider report in respect of ABC Co. securities if:

(a) he/she actually owned (or exercised control or direction over) securities of ABC Co. for the six months before the bank became an insider of ABC Co.;

(b) he/she acquires ownership (or exercises control or direction over) securities of ABC Co. for the period of time that the bank remains an insider of ABC Co.

Using our example, it is not clear whether item 7 requires the Insider Profile to be amended at the time: (i) the bank becomes an insider of ABC Co.; or (ii) the time the director or senior officer falls within (a) or (b) above.

We believe that an insider's on-going maintenance of his/her Insider Profile should not be

an onerous task. As a result, we feel that the appropriate trigger in item 7 should be actual ownership (or exercise of control or direction over) securities of ABC Co. as set out in (a) and (b) above.

### **Proposed new Form 55-102F2**

Specifically, we would like to comment on the information to be required in the proposed new Form 55-102F2 in relation to third-party derivatives. As we understand it, the mandate of the securities commissions is to protect both retail investors and the integrity of the capital markets. We are concerned that the detail required with regard to third-party derivative transactions, in the context of an often illiquid Canadian capital market, could lead to market distortions on or around expiry/maturity dates of third-party derivative transactions. We submit that in balancing the two objectives, more generalized disclosure is appropriate (and of course, there is no issue with detailed disclosure of activity after it has occurred, including after exercise of any rights in relation to a derivative transaction).

The problem in relation to integrity of the capital markets arises in relation to paragraphs 17 to 21 in Form 55-102F2, which require disclosure of the conversion or exercise price, the dates when the security becomes exercisable and when it expires, and the amount of underlying securities involved. This information provides advance knowledge of future trading activity (which will be required to close-out the third party's hedges in the underlying security), and places those involved with that future trading at a disadvantage in the market. Because of the relative illiquidity of the Canadian market, this situation could significantly affect the price of the underlying security involved. We have commented on the liquidity aspects of the Canadian market, because if a market is more liquid (as for example would generally be the case in the U.S.), then the market integrity aspects will be less important (or non-existent), and so detailed reporting could be entirely appropriate.

We recognize that any balancing of the objectives we identify above will be a difficult one, and would be happy to meet with you at your convenience to consider appropriate detailed disclosure provisions. We would imagine that the right solution to this issue would involve some general disclosure of the underlying position involved in the derivative transaction, combined with disclosure of the details of any exercise of rights on an after-the-fact basis.

### **Conclusion**

We commend the CSA for harmonizing insider reporting obligations throughout Canada, and as noted look forward to discussing our proposals with you in more detail. An electronic copy of our submission on a disk is enclosed for your convenience.

Yours truly,