MEMBER REGULATION

notice

Contact:
L. Piergeti: (416) 865-3026 - lpiergeti@ida.ca

MR0278

March 25, 2004

ATTENTION:
Ultimate Designated Persons
Chief Financial Officers
Panel Auditors

Distribute internally to:

- ❑ Corporate Finance
- ❑ Credit
- ❑ Institutional
- ❑ Internal Audit
- ■ Legal & Compliance
- ❑ Operations
- ■ Registration
- ■ Regulatory Accounting
- ❑ Research
- ❑ Retail
- ■ Senior Management
- ❑ Trading desk
- ❑ Training

Diversification – Distribution of Insurance Products

The purpose of this Notice is to advise Member firms of the Association's applicable Bylaws regarding non-securities business activities with particular reference to the distribution of insurance products by licensed agents.

IDA Bylaw 6.7 states *"No Member or related company shall carry on any business other than securities related activities without the prior approval of the applicable District Council but a Member or holding company of a Member may own an investment in a corporation (other than the Member) that carries on activities other than securities related activities and in respect of which the Member is not responsible for any of its liabilities. Each Member and holding company of a Member shall give notice in writing to the Association prior to acquiring any investment in such a corporation.*

IDA Member Regulation staff considered whether to permit a Member firm to engage directly in the distribution of insurance products by its employees (licensed insurance agents), where permitted by provincial legislation and insurance regulators.

The following concerns have been identified: 1) Members are unable to eliminate potential civil and other liabilities arising from the sale of insurance products and there is no provision for quantifying and providing capital for those risks as there is for risks arising in the course of Members' securities business, 2) the Association has no jurisdiction or authority over insurance business activity and is thus precluded from effective regulation of the distribution of insurance products by a Member to ensure that related risks are adequately controlled.

Based on the foregoing, IDA Member Regulation staff has taken the position that it will not recommend any Member firm application to District Council to diversify business activities involving the distribution of insurance products by employing licensed insurance agents.

The accepted industry practice, as set out in IDA Bylaw 6.7, is to permit the diversification of non-securities related activities, such as the distribution of insurance products, by incorporating a separate legal entity subsidiary or affiliate to employ licensed agents. This corporate structure serves to allow Member firms to diversify their business interests and shield the Member's legal entity from responsibility of liability arising in its subsidiaries or affiliates and thereby protecting the IDA membership and the Canadian Investor Protection Fund from loss.

Member firms should also refer to other related IDA regulatory notices such as C-098 regarding "Dual Registration Requirements of Life Insurance Agents and Securities Salespersons" dated June 1996, and FC98-29 regarding "Processing of Segregated Funds" dated December 1998.