



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

May 7, 2007

Mr. Richard Corner
Vice-President, Regulatory Policy
Investment Dealers Association of Canada
121 King Street West
Suite 1600
Toronto, Ontario
M5H 3T9

RE: IDA Policy No. 11

Dear Mr. Corner,

The IIAC on behalf of our Analyst Standards Committee is writing to request changes to IDA Policy No. 11 dealing with Research Restrictions and Disclosure Requirements in order to retain some consistency with NASD Rule 2711 and NYSE Rule 472 & 344 (“Rules”).

In December 2005 the NASD and NYSE put out a joint report on the Operation and Effectiveness of the Research Analyst Conflict of Interest Rules at the request of the SEC. The SEC had requested that a review take place to ensure that the Rules were effective and necessary. Following the issuance of the Joint Report in 2005, the NASD put out proposals to amend a number of the provisions contained in the Rules. The comment period ended in March 2007 and we expect the amendments to be put in force shortly.

The main amendment that our members are concerned about is NASD Rule 2711 (f) dealing with restrictions on publishing research. The current NASD Rule sets forth quiet periods during which a member is prohibited from publishing or otherwise distributing research reports. The Rule states:

“No member may publish ... or otherwise distribute a research report ...for which the member acted as manager or co-manager of:

- (A) an initial public offering, for 40 calendar days following the date of the offering; or
- (B) a secondary offering, for 10 calendar days following the date of the offering provided that:
 - (i) paragraph (f)(1)(A) and (f)(1)(B) will not prevent a member from publishing or otherwise distributing a research report...concerning the effects of significant news or a significant event...”.

Under the proposal put out by the NASD in January 2007, the quiet period would be reduced from 40 days to 25 days for an initial public offerings and no quiet period would exist for secondary offerings. When looking at the validity of the requirement the NASD found that managers and co-managers have been neutral or even negative with their initial post-quiet period report based on price appreciation and other factors and therefore the lengthy period may not be required. Furthermore, the NASD felt that the amendment would increase the flow of information to investors without sacrificing the reliability of the research.

NASD Rule 2711 (f) is mirrored in Policy No. 11 Requirement 14, and was based on the NASD provision when originally drafted. As such, the IIAC requests, on behalf of our members, that that the IDA make the same change to Requirement 14. This will help to ensure consistency with the Rules as it is very important for members to be subject to similar requirements especially for those members with large integrated cross-border operations. We appreciate that the requirements of Canadian and U.S. markets are distinct. However, we feel that in this specific area, having research black-out periods of varying lengths could be disadvantageous to Canadian investors.

It should be noted the NASD Rule amendment is being proposed in conjunction with the existing U.S. rules which provide exceptions for research reports on issuers with “actively-traded securities”. A similar exception also exists in IDA Policy No. 11 Requirement 14.1 which will also remain consistent with the U.S. Rule.

The purpose of the Rules is to protect the investor. However, an inconsistent rule could unintentionally harm Canadian investors by creating an un-level playing field which could result in regulatory arbitrage. Since research will be disseminated in the U.S. and not in Canada due to the different hold periods, Canadian investors will be put at a disadvantage without reason. It is conceivable that a U.S. based broker-dealer which is a syndicate member on a securities offering could write (in the U.S. only) on an issuer while Canadian syndicate members could not. Furthermore, once research is issued in the U.S. it will undoubtedly filter into Canada via the internet, Bloomberg/Reuters or other sources, consequently, for consistency and fairness the rules should be the same.

The IIAC commends the SEC for requesting a review of the Research Analyst Rules to ensure that they are operating in the manner originally intended. The IIAC endorses this concept and would encourage the IDA to follow this policy of reviewing rules that have been in place over a period of time to ensure that the intended benefits and vision are being achieved.

We recognize the fact that the Rule amendments in the U.S. are not yet in affect, but given the time required to draft the amendments, get approvals, publish the rule for comments and put in force, we feel it is necessary to amend Policy No. 11 as soon as possible to avoid any issues caused by gaps in the Rules.

If you have any questions or concerns please do not hesitate to contact me. Thank you for considering our recommendations.

Sincerely Yours,



Deborah L. Wise
Assistant Director, Policy

cc. Paul Bourque

IIAC Research Analyst Standards Committee

Robert Antoniuk, CIBC World Markets Inc.
Jill Clark, TD Securities Inc.
Kelley Hoffer, RBC Dominion Securities Inc.
Joe Paladino, BMO Nesbitt Burns Inc.
Raj Sachdeva, RBC Dominion Securities Inc.
Susanne Watson, Scotia Capital
Gina Yee, Scotia Capital