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Director

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Dear Ms. Tassie:

Re: Proposed Amendments to Conditions of Registration for Investment Dealers with a BC Office that Trade in the U.S. Over-the-Counter Markets (the "Proposed Amendments")

The IIAC appreciates the opportunity to comment on the Proposed Amendments. We support the Commission's efforts to protect the integrity and reputation of the BC capital markets by banning certain high-risk business with financial institutions in jurisdictions that are non signatories to the IOSCO Multilateral Memorandum of Understanding (the "IOSCO MMOU"). We are, however concerned that the broad brush approach will have significant unintended consequences that are not justified by the benefits of this initiative.

The Proposed Amendments effectively cease trade certain financial institutions, without evidence of any wrongdoing, and without the benefit of hearing, simply by virtue of their jurisdiction. The effect is to prohibit virtually all transactions from these jurisdictions, rather than target the entities involved in transactions of concern to the regulators.

In the Notice, the Commission states that the “burden on affected dealers is outweighed by the benefit to the integrity and reputation of British Columbia’s capital markets.” It is not clear from the Notice what the actual costs and benefits are, and if they have been calculated in an objective and quantifiable manner. In determining whether the burden is outweighed by the benefits, it is important that the actual scope and value of the problem is understood and communicated to those who will be responsible for a significant portion of the costs of addressing the issue.

In terms of the benefits to the market, it would be useful for the BCSC to provide the industry with information about the scope of the problem, such as the number and value of transactions that are taking place, where the BCSC is unable to obtain information about the identities of those undertaking abusive trading activities. Only once the scope of the problem is understood, can the appropriate costs to eradicate the problem be determined.

We note that some of the high profile problems with the type of abusive trading of concern occurred in jurisdictions that are signatories to the IOSCO MMOU such as Switzerland and Lichtenstein. The Proposed Amendments would not have prevented such abuse.

In terms of the costs to dealers, the implementation of processes involved to comply with the Proposed Amendments involve significant resources. The processes will require firms to institute a number of manual procedures, checks and balances to identify potential “financial institutions” in the non IOSCO – MMOU jurisdictions. The criteria that defines what a “financial institution” is, is not so uniform to allow for a streamlined and efficient search that can be done without manual intervention and judgment. Once it is established that an entity is in fact, a “financial institution” staff must review the transaction to determine whether it is undertaking an “account activity” with an OTC issuer. The manual processes to identify such activities may require significant staff resources and will slow down execution for legitimate orders.

Although this type of business does not comprise a significant part of most dealers’ activities, in order to ensure compliance with the Proposed Amendments, dealers would have to commit a disproportionate amount of resources to compliance efforts, and given the nature of manual processes, perfect compliance will not be possible.

If, despite the regulatory measures undertaken to date, the BCSC has information to show that this type of abusive trading continues to be significant, we believe that there are other, more targeted, efficient and less costly ways to address the problem, without incurring unnecessary expenses and creating unintended consequences. Rather than effectively cease-trading all entities from particular jurisdictions, financial institutions with broad patterns of questionable trading could be cease traded. This approach would shut down the problem actors, and address the due process issues relating to the BCSC taking action against entities in a non BCSC regulated jurisdiction without evidence

of wrongful activity. It also mitigates the significant costs to the industry that would result from the Proposed Amendments.

Thank you for considering our feedback. If you have any further questions, please do not hesitate to contact me.

Yours sincerely,

Susan Copland