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MFDA Bulletin

Compliance

For Distribution to Relevant Parties within your Firm

Expiration of Transition Periods for

- Minimum Capital
- Financial Reporting Requirements of Members and;
- Early Warning Requirements

1. Minimum Capital

MFDA Rule 3.1.1 requires Members to maintain minimum capital in the following amounts:

Level 1 Dealer - \$25,000

Level 2 Dealer - \$50,000

Level 3 Dealer - \$75,000

Level 4 Dealer - \$200,000

The MFDA Board of Directors approved a three-year transition period (commencing March 1, 2001 and ending March 1, 2004) to allow Level 2, 3 and 4 dealers to meet the minimum capital requirements set out in MFDA Rule 3.1.1. Members are to be aware that this transition period expires March 1, 2004. Therefore, as at March 1, 2004, all Members are expected to maintain the minimum capital amounts required under Rule 3.1.1, as noted above.

For further information regarding transition periods for minimum capital, Members are advised to refer to MFDA Member Regulation Notice MR-0005, issued March 16, 2001, entitled "MFDA Financial Questionnaire and Report – Related Transition Periods".

2. Financial Reporting Requirements of Members

The MFDA Board of Directors approved a two-year transition period (commencing March 1, 2001 and ending March 1, 2003) to allow Members to comply with the MFDA monthly financial reporting requirement. During this transition period, Members were required to file with the MFDA financial reports on a quarterly basis, unless otherwise required by the MFDA to file more frequently. The Board of Directors subsequently approved a one-year extension to the transition period for this requirement. As at March 1, 2004, this transition period expires. Therefore, upon expiration of this transition period, all Members are required to file with the MFDA financial reports on a monthly basis in accordance with Rule 3.5.1(a).

The first monthly financial report to be filed for financial periods ending on or after March 1, 2004 will depend upon the Member's fiscal year end and its current filing requirements with the MFDA. All Members will be required to report financial information for the period since its last financial filing. For example, those Members with a December 31 year end currently filing quarterly financial reports with the MFDA, will be required to submit a financial report as at March 31, 2004, for the quarter then ended. If the same Member currently files monthly financial reports with the MFDA, it will be required to file a financial report as at March 31, 2004, for the month then ended.

Members should also be aware that all Statements, Schedules, and the Certificate of Partners or Directors, are required to be submitted to the MFDA, as noted in the Table of Contents to the Financial Questionnaire and Report ("FQR").

3. Early Warning Requirements

The MFDA Board of Directors approved a two-year transition period (commencing March 1, 2001 and ending March 1, 2003) relating to the implementation of automatic early warning sanctions. During this transition period, the MFDA reserved the right to request financial information from a Member and implement the sanctions set out under the Rules (Rule 3.4). The Board of Directors subsequently approved a one-year extension to the transition period for this requirement. As at March 1, 2004, this transition period expires. Therefore, upon expiration of this transition period, all Members filing a financial report with the MFDA which indicates the Member triggered one of the Early Warning Tests (i.e. Statement C in the FQR) will automatically be designated in Early Warning and the requirements of Rule 3.4 apply.

It should be noted that Members who triggered Early Warning Tests more than 2 times during the rolling 12 month period prior to March 1, 2004, will be required to respond "Yes" to failing the Frequency Test on their monthly FQR. This is required so that an accurate history of the Member's financial filings is maintained by the MFDA. However, MFDA staff recognize that the rationale for providing such a transition period for Early Warning sanctions was to allow Members the opportunity to adjust their financial structure to ensure adequate risk adjusted capital is maintained in the future and to ensure appropriate consideration is given to the firm's liquidity (i.e. the Liquidity Test) and profitability (i.e. Profitability Test). Therefore, until

December 1, 2004, Early Warning sanctions will not be automatically imposed on Members failing only the Frequency Test, if the failure related to Early Warning Tests triggered prior to March 1, 2004.

For further information regarding transition periods for financial reporting and early warning requirements, Members are advised to refer to MFDA Member Regulation Notice MR-0018, issued April 17, 2003, entitled “Extension of Certain Transition Periods”.

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