



Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels
121 King Street West, Suite 1000, Toronto, Ontario, M5H 3T9
TEL: 416-361-6332 FAX: 416-943-1218 WEBSITE: www.mfda.ca

Contact: Gregory J. Ljubic
Corporate Secretary
Phone: (416) 943-5836
E-mail: gljubic@mfda.ca

BULLETIN #0144-P
June 17, 2005

MFDA Bulletin

Policy

For Distribution to Relevant Parties within your Firm

MFDA Investor Protection Fund Update

The following is an update on the MFDA Investor Protection Corporation (“MFDA IPC”).

Approval of MFDA IPC

On May 3, 2005, the Ontario, Alberta, British Columbia and Nova Scotia Securities Commissions and the Saskatchewan Financial Services Commission (the “Commissions”) provided notice of the approval of the MFDA Investor Protection Corporation (“IPC”) as a compensation fund for customers of mutual fund dealers that are Members of the MFDA. The IPC intends to commence coverage of customer accounts on July 1, 2005.

Links to the Commissions’ approval notices and orders are available on the Investor Protection Corporation page of the MFDA website at www.mfda.ca.

Size of IPC Fund and Assessments

The initial size of the IPC has been set at \$30 million. The Board of Directors of the MFDA approved the transfer of \$2.5 million from the MFDA’s discretionary fund to the IPC. The MFDA discretionary fund is an account established by the MFDA to receive fine and penalty monies arising from MFDA disciplinary proceedings. In addition, the MFDA and IPC are now

in the process of finalizing a line of credit for the IPC in the aggregate amount of \$30 million with a Canadian bank.

Member assessments will commence July, 2005 with the first payment due September 30, 2005. Members will be assessed on a quarterly basis. Member assessments are based on a calculation relating to assets under administration (“AUA”), averaged over the prior two years. Each Member will be assessed at a rate of \$22 per million of AUA. However, there will be a minimum amount of assessment as follows:

- \$1,000 for Members that are Level 1, 2 or 3 dealers; and
- \$3,500 for Members that are Level 4 dealers.

The MFDA is not recognized in the province of Quebec and MFDA IPC coverage for customers with accounts in Quebec of MFDA Members will not be provided. As a result, assessments for MFDA IPC funding will not be made in respect of AUA of Members in Quebec.

IPC Working Group

In accordance with the terms and conditions of the approval order of the Commissions, the IPC and MFDA will be establishing a working group consisting of representatives of the MFDA IPC, the MFDA and mutual fund dealers to review various aspects of the IPC including the following:

- (i) identification of the risks of mutual fund dealer failures leading to potential investor losses;
- (ii) consideration of the size of fund that is appropriate having regard to:
 - identified risks;
 - amounts of customer property held in client name;
 - amounts of customer property held in nominee name;
 - average size of customer accounts;
 - average cash flow of customer monies through the dealer; and
 - other non-mutual fund products being covered under the fund;
- (iii) the type of products that should be covered;
- (iv) the appropriate coverage amount per customer account;
- (v) assessment methodology, including whether it should be risk-based;
- (vi) the appropriate long term methods of funding the MFDA IPC; and
- (vii) the types of risk management tools required by the MFDA IPC.

A written report of the working group's findings will be submitted to the MFDA IPC Board and to the Commissions by May 3, 2006.

Advertising Requirements Related to IPC Coverage

The working group will also be reviewing the matter of advertising of IPC coverage and use by Members of references to the IPC. Accordingly, the proposed amendments to MFDA Rule 2.7 and proposed MFDA Policy 4 (“Advertising Relating to MFDA IPC Participation”) which were published for comment with the revised IPC Application on February 25, 2005, have not been approved and are not in effect. In the meantime, the MFDA is currently working on a brochure that Members will be required to provide to their customers. The brochure will outline various aspects related to the IPC including limits of coverage; funding the IPC; who is eligible for coverage; making a claim; etc. We will keep you informed of our progress in this regard.

Doc #59706v1