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MFDA Bulletin

Compliance

For Distribution to Relevant Parties within your Firm

Misleading Communications regarding Investment Loans By Loan Providers

MFDA staff has become aware of communications sent by affiliated financial institutions of fund managers to MFDA Members, which promote investment loans in a manner that is misleading and contrary to the best interests of investors. The communications sent by the fund manager affiliates advertise investment loans as like “inheriting cash” or “finding cash” and state that “there is no upper limit on the amount that can be borrowed”. The loans are described as “no margin loans” and are available only if the clients invest in the mutual fund of the affiliated fund manager. These communications typically promote the merits of leveraging strategies for clients while not mentioning the attendant risks.

Members and Approved Persons are reminded of the requirements of MFDA Rules 2.2.1 and 2.6 to ensure that recommendations to clients with respect to leveraging are suitable and that a risk disclosure document be provided to clients when recommendations with respect to leveraging are made.

MFDA staff has notified the provincial securities regulatory authorities of these communications for their consideration of the fund manager’s role in promoting such activity that appears to be contrary to the best interests of investors.

References: MFDA Rules 2.2.1 and 2.6