



Mutual Fund Dealers Association of Canada
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MFDA Bulletin

Policy

For Distribution to Relevant Parties within your Firm

Amendments to MFDA Rule 3.2.2 (Member Capital) and 3.2.5 (Notice Regarding Accelerated Payment of Long Term Debt)

The MFDA Board of Directors and the recognizing securities commissions have approved amendments to MFDA Rules 3.2.2 (Member Capital) and 3.2.4 (Notice Regarding Accelerated Payment of Long Term Debt). Members confirmed the amendments at the Annual General and Special Meeting of MFDA Members on December 1, 2006. The amended Rules, attached as Schedule “A”, are effective immediately.

The amendment to Rule 3.2.2 clarifies the requirement for Members to maintain positive financial statement capital (defined as shareholders equity plus subordinated debt). This amendment will resolve the concern that a Member may be technically compliant with MFDA requirements but has liabilities greater than its assets and is consistent with requirements contained in securities legislation in certain provinces.

MFDA Rule 3.2.5 is a new Rule intended to require Members to notify the MFDA of any request by a creditor for accelerated payments over and above the payments required under an existing repayment schedule. The notification is intended to alert the MFDA of situations which may indicate a firm is experiencing financial difficulty.

Amendment to MFDA Financial Questionnaire and Report

The MFDA Board of Directors and the recognizing securities commissions have approved an amendment to the MFDA Financial Questionnaire and Report (“FQR”). Members confirmed the amendment at the Annual General and Special Meeting of MFDA Members on December 1, 2006. The amended section of the FQR is attached as Schedule “B”.

The amendment requires that all related party debt must be recorded on the FQR as a current liability unless a subordination agreement in a form prescribed by the MFDA has been executed

by the Member and other relevant parties in relation to such debt.

To comply with the requirements of the amendment, Members will have until January 29, 2007 to submit an executed subordination agreement in the prescribed form to the MFDA if the Member intends to report any of its related party debt owed as at December 31, 2006 as capital rather than as a current liability on its FQR for the period then ended. Going forward, all new related party debt assumed by the Member must be reported as a current liability on the Member's FQR unless a subordination agreement in the prescribed form has been duly executed and submitted to the MFDA.

“SCHEDULE A”

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

MFDA Rule 3.2.2 (Minimum Capital)

3.2.2 Member Capital.

(a) Each Member shall maintain capital in respect of its firm business in accordance with the requirements set out in Form 1.

(b) Each Member shall at all times maintain positive total financial statement capital as calculated in accordance with the requirements set out in Form 1.

. . .

MFDA Rule 3.2.5 (Notice Regarding Accelerated Payment of Long Term Debt)

3.2.5 Notice Regarding Accelerated Payment of Long Term Debt. Each Member shall immediately notify the Corporation of any request or demand by a creditor for accelerated payments or any other payments in addition to those specified under the agreed regular repayment schedule with respect to contingent and long term liabilities owed by the Member.

“SCHEDULE B”

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

**MFDA FINANCIAL QUESTIONNAIRE AND REPORT
(GENERAL NOTES AND DEFINITIONS)**

11. For purposes of these statements and capital calculations, all related party debt must be recorded as a current liability unless a subordination agreement in a form prescribed by the MFDA has been executed by the Member and other relevant parties in relation to such debt.

(Doc # 96128 v3)