



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

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**BULLETIN #0250 – M**  
March 14, 2007

# MFDA Bulletin

## Membership Information

**For Distribution to Relevant Parties within your Firm**

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### Member Regulation Notice MR-0058 (Acceptable Securities Locations)

The purpose of this Bulletin is to inform Members of steps taken by MFDA staff to facilitate the process relating to the requirements outlined in Member Regulation Notice MR-0058, Acceptable Securities Locations (“MR-0058”), issued on December 14, 2006.

Furthermore, Members requiring assistance obtaining executed custodial agreements with mutual fund companies or other financial institutions holding securities or other investment products on Members’ behalf are encouraged to contact MFDA staff and advise of the respective entities that have not yet signed a compliant custodial agreement.

Members are reminded that it is their responsibility to comply with the requirements outlined in MR-0058. More specifically, Members must ensure that effective July 1, 2007, all proprietary and client assets held beyond their physical possession be held at “acceptable securities locations” or alternatively, have sufficient regulatory capital to cover the margin implications that will otherwise be applicable.

### Requirements

MFDA Rules require Members holding proprietary or client securities or other investment products beyond their physical possession to ensure the assets are held at an “acceptable securities location”.

MR-0058 requires Members to review the locations at which their assets are held and proactively seek to ensure the applicable entities sign the prescribed “bare trustee” custodial agreement with the MFDA (see Schedule “A” to MR-0058), or alternatively execute a custodial agreement with the entity itself containing the provisions of Rule 3.3.3(b). Effective July 1, 2007, if a Member holds securities or other investment products at an external location that does not qualify as an acceptable securities location, the Member will be required to provide a capital charge on its FQR equal to 100% of the market value of the securities or other products held at that external location.

## Action Taken and Proposed Next Steps

Attached, as Schedule “A”, is a letter that was sent by MFDA staff to approximately 170 mutual fund companies. The letter was intended to request mutual fund companies to review the requirements of MR-0058 as it relates to them and MFDA Members, and to submit the requested documentation to the MFDA if considered applicable.

Members requiring assistance with obtaining prescribed “bare trustee” custodial agreements from mutual fund companies or other financial institutions where assets are held on their behalf are encouraged to submit contact information for these entities to the MFDA at [financialcompliance@mfd.ca](mailto:financialcompliance@mfd.ca). Upon receipt of such information, MFDA staff will forward the letter, attached as Schedule “A”, directly to the entities identified by the Member.

(DOCS # 103871)

## SCHEDULE "A"



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

Dear Sir / Madam:

### **Important Notice Re: Custodial Services Provided to MFDA Members**

Attached is Member Regulation Notice MR-0058, Acceptable Securities Location ("MR-0058"), issued by the Mutual Fund Dealers Association of Canada ("MFDA") on December 14, 2006. In an effort to assist our Members with complying with the requirements set out in MR-0058, we are sending you this letter to respectfully request your **immediate attention** to this Notice.

As you are likely aware, provincial securities legislation, with the exception of Quebec, generally requires registered mutual fund dealers in Canada to be Members of the MFDA, the national self-regulatory organization for mutual fund distributors. Members of the MFDA are required to comply with the organization's specified Rules, By-laws and Policies. MFDA Rules require Members holding proprietary or client securities or other investment products beyond their physical possession to ensure the assets are held at an Acceptable Securities Location ("ASL"). In order to satisfy the requirements of an ASL, a written custodial agreement must be entered into between the custodian and either the Member or the MFDA, containing the required provisions specified by the MFDA.

MFDA Members are required to ensure that all mutual fund companies and financial institutions, which hold proprietary and/or client assets on the Members' behalf, execute a compliant custodial agreement by **June 30, 2007**. In the event a compliant custodial agreement is not executed by June 30, 2007, each Member will be required to report a **capital charge** on its financial report submitted to the MFDA **equal to 100% of the market value** of all assets held for the Member by that mutual fund company / financial institution. Any Member conducting business with a mutual fund company or financial institution which has not executed a compliant custodial agreement by June 30, 2007, and is not able to continue to satisfy the minimum capital requirements of the MFDA, will be expected to **cease trading in the mutual fund and/or other asset** held by the respective entity.

Consequently, we respectfully request that you review the attached Notice and the prescribed "bare trustee" custodial agreement for its applicability to your company. Where your firm holds assets on behalf of MFDA Members, we would ask that you provide the following documentation directly to the MFDA:

1. 2 signed copies of the prescribed "bare trustee" Custodial Agreement (not negotiable in terms of amending the agreement). The standard prescribed agreement is found attached to the Notice as Schedule "A".

2. A corporate resolution for signing authority.

We would greatly appreciate if you would consider this Notice and provide the MFDA with the above items by **April 16, 2007**, if applicable. We request the submission of the documents by this date so that we may review them and follow up with any additional requirements from your firm or our Members directly.

Thank you in advance for your attention to this request. If you have any questions please contact Samantha Duxbury, Manager Financial Compliance, at 416-943-4662 or me at 416-943-5843.

Sincerely,

Laura Milliken  
Director, Financial Compliance