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MFDA Bulletin

Compliance

For Distribution to Relevant Parties within your Firm

Member Regulation Notice MR-0051 (Capital Provisions for Unresolved Differences in Nominee Name Assets)

The purpose of this Bulletin is to remind Members that hold client securities and other investment products in nominee name of the requirements outlined in Member Regulation Notice MR-0051, Capital Provisions for Unresolved Differences in Nominee Name Assets, issued on December 22, 2005. These requirements apply to all Members holding client assets in nominee name and include all Members holding client assets in their capacity as agent for the trustee of self-directed registered plans.

MFDA Staff Findings

During the second round of on-site financial compliance examinations of Level 4 Members, MFDA staff continued to identify deficiencies by Members relating to the requirement to reconcile all nominee name assets on at least a monthly basis to third party documentation. While Members appeared to be adequately complying with these requirements for mutual funds transacted through FundSERV, reconciliations may not have been performed on investment products distributed outside of FundSERV, such as Guaranteed Investment Certificates (“GICs”), Limited Partnerships (“LPs”), Labour Sponsored Investment Funds (“LSIFs”) and some hedge funds.

Requirements

MFDA Internal Control Policy Statement 4, Cash and Securities, requires the Member to produce a report from its trading system of client securities owned by clients but registered in the

name of, or held by, the Member that require segregation and then reconcile the report to third party information to identify deficiencies. If third party documentation is not obtained and/or reconciliations of client securities positions are not being done on a monthly basis the Member is required to take a **margin provision on its regulatory capital equal to 100% of the market value of such securities or other investment products held on behalf of clients plus the applicable margin rates related to the securities**, in accordance with the Notes and Instructions to Statement B line 12 of the Form 1 Financial Questionnaire and Report (“FQR”).

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