



Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

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MFDA Bulletin

Policy

For Distribution to Relevant Parties within your Firm

Notice of Exemption Granted Pursuant to Section 37 of By-law No.1

The Regulatory Issues Committee of the MFDA Board of Directors has granted an exemption from the requirements of MFDA Rule 5.3.1 (“Delivery of Account Statement”) to State Farm Investor Services Co. (Canada) (“State Farm”) from the requirement for State Farm to deliver account statements to its clients as required by Rule 5.3.1(a)(i) and to rely on Invesco Trimark, the fund manager with whom it has an exclusive business relationship, to send such account statements on its behalf under an exemption available to certain Members under Rule 5.3.1(d).

The relief granted is subject to the terms and conditions set out in the Decision Document of the Regulatory Issues Committee of the MFDA Board of Directors (attached to this Bulletin).

DOCS #195826



MUTUAL FUND DEALERS ASSOCIATION OF CANADA

DECISION DOCUMENT

**In the Matter of the Application of State Farm Investor Services (Canada)
Co. (the "Applicant") for exemptive relief from the requirements of MFDA
Rule 5.3.1 (Delivery of Account Statement)**

Background

- (a) By way of letter dated December 10, 2007, the MFDA received an application for exemptive relief from the Applicant pursuant to which the Applicant sought relief from the requirement for it to deliver account statements to its clients, as required by Rule 5.3.1(a)(i) and to rely on the fund manager with whom it has an exclusive business relationship, Invesco Trimark (the "Fund Manager") to send such account statements on its behalf. The relief sought by the Applicant is available to certain Members under Rule 5.3.1(d) and includes a requirement that the Member have an affiliate relationship with the fund manager sending account statements on its behalf. The Applicant seeks to extend this relief to its situation, where no such affiliate relationship exists.
- (b) MFDA Rule 5.3.1 provides as follows:

5.3.1 Delivery of Account Statement

- (a) Each Member shall send an account statement to each client in accordance with the following minimum standards:
 - (i) once every 12 months for a client name account;
 - (ii) once a month for nominee name accounts of clients where there is an entry during the month and a cash balance or security position; and
 - (iii) quarterly for nominee name accounts where no entry has occurred in the account and there is a cash balance or security position at the end of the quarter.
- (b) A Member may not rely on any other person (including an Approved Person) to send account statements as required by this Rule.
- (d) Notwithstanding the provisions of Rule 5.3.1(b), where a Member is affiliated with a fund manager and in connection with a specific client account is selling only the mutual fund securities of an issuer managed by such affiliated fund manager for that client account, the Member may rely on the affiliated fund manager to send the account statement required by paragraph (a)(i) for that specific account.

- (c) The intent of MFDA Rule 5.3.1 is to ensure that clients receive, at least annually, a statement that outlines all of the client's activities with the Member. Ensuring that clients receive a single statement helps to eliminate client confusion that may result from receiving multiple statements from different issuers and also provides a control mechanism which allows clients the ability to assess whether all of their transactions with the Member are properly accounted for. The exemption provided under MFDA Rule 5.3.1 (d), which allows for Member reliance on a fund manager affiliate, is based on the assumption that the affiliate relationship will ensure that account statements issued on the Member's behalf comply with MFDA Rules.
- (d) Pursuant to section 37 of MFDA By-law No. 1, the MFDA Board of Directors may exempt any Member, Approved Person or any other person subject to the jurisdiction of the Corporation, or any group or class of the foregoing persons, from the requirements of the provisions of the By-laws, Rules and Forms where it is satisfied that to do so would not be prejudicial to the interests of the Members, their clients or the public, and in granting such an exemption the Board of Directors may impose such terms and conditions as are considered necessary and desirable. The MFDA Board of Directors has delegated the consideration and disposition of exemptive relief applications to the Regulatory Issues Committee of the Board pursuant to section 3.6.4 of MFDA By-law No. 1.

Representations

This decision is based on submissions made in the application, including the following facts:

- (a) The Applicant only sells mutual funds (no other investment products) and only distributes mutual fund securities offered by the Fund Manager in client name;
- (b) If the Fund Manager were permitted to send client account statements on behalf of the Applicant, such statements would contain the same information as those required to be sent by the Applicant. Clients would receive a single consolidated account statement identifying all transactions executed through the Applicant; and
- (c) Given the exclusive distribution arrangement, the Applicant can establish contractual provisions in its distribution agreement with the Fund Manager that provide adequate controls to ensure that the Fund Manager delivers client account statements compliant with all relevant requirements under MFDA Rules and Policies.

Decision

At its October 8, 2009 meeting the Regulatory Issues Committee of the MFDA Board of Directors approved granting the exemptive relief requested by the Applicant provided that:

1. the Applicant shall ensure that the account statements sent by the Fund Manager on its behalf fully comply with all requirements under MFDA Rules and Policies, including those in respect of account statement content and delivery;

2. records of the account statements must be maintained by the Applicant in accordance with MFDA Rules and Policies;
3. the Applicant agrees to provide MFDA staff with access to any books and records that may be required to confirm compliance with MFDA Rules and Policies;
4. in the event that the Fund Manager elects to discontinue sending client account statements on behalf of the Applicant, the Applicant must provide the MFDA with 90-day advance written notice;
5. the Applicant shall execute, and cause the Fund Manager to execute, an agreement together in a form acceptable to the MFDA, which, at a minimum, shall include provisions reflecting the requirements in 1-4, noted above;
6. the Applicant must have systems in place to ensure that information presented on account statements sent by the Fund Manager on its behalf has been reconciled with its own information with respect to transactions it executes;
7. the Applicant must test, at least annually, the client account statements delivered by the Fund Manager on its behalf to ensure that such statements comply fully with MFDA Rules and Policies; and
8. no changes are made to the Applicant's business model that would impact the basis upon which the proposed relief is granted, including, but not limited to, changes that result in the Applicant promoting, distributing or selling: (i) securities other than mutual funds; and/or (ii) mutual funds other than those offered by the Fund Manager.

Signed on behalf of the Committee on the 16th day of December, 2009

“Helen Meyer”

Helen Meyer
Chair

DM#191644v3