



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

Approval of Proposed Amendments to MFDA Rule 2.4.1 (Payment of Commissions to Unregistered Corporation)

The securities regulatory authorities in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick and Nova Scotia (the “Recognizing Regulators”) have approved/not objected to proposed amendments to MFDA Rule 2.4.1 (Payment of Commissions to Unregistered Corporation). The Rule, as revised, is effective immediately and will be brought forward for ratification at the December 2010 Annual General Meeting of Members. The amended Rule is attached as Schedule “A” to this Bulletin.

Subsection 2.4.1(b) permits Members to direct payments in respect of business conducted by an Approved Person on behalf of the Member to an unregistered corporation, subject to conditions. This subsection of the Rule does not apply in respect of any remuneration derived from a client in Alberta.

The Recognizing Regulators have made the amendments subject to the condition that the form of Agreement provided as Schedule “A” to Member Regulation Notice MR-0002 *Payment of Commissions to Non-Registered Entities* (issued on May 15, 2001) be revised to reflect the terms of Rule 2.4.1, as amended, and that revised Agreements be duly executed and in place by **March 26, 2011**.

Accordingly, MFDA staff is issuing Member Regulation Notice MR-0072 *Payment of Commissions to Unregistered Corporation* that replaces MR-0002 and the form of Agreement provided with that Notice and provides Members with guidance in respect of implementation timelines for the revised Agreement.

DM#205656

SCHEDULE "A"

2.4 REMUNERATION, COMMISSIONS AND FEES

- 2.4.1 (a) **Payable by Member Only.** Any remuneration in respect of business conducted by an Approved Person on behalf of a Member must be paid by the Member (or its affiliates or its related Members which have received it from the Member) directly to and in the name of the Approved Person.

No Approved Person in respect of a Member shall accept or permit any associate to accept directly or indirectly, any remuneration, gratuity, benefit or any other consideration from any person other than the Member or its affiliates or its related Members, in respect of the business carried out by such Approved Person on behalf of the Member or its affiliates or its related Members.

- (b) **Payment of Commissions to Unregistered Corporation.** For the purpose of this Rule, "unregistered corporation" shall be understood to mean a corporation that is, itself, not registered under securities legislation. Notwithstanding paragraph (a), where an Approved Person acts as an agent of the Member in compliance with MFDA Rule 1.1.5, any remuneration, gratuity, benefit or other consideration in respect of business conducted by the Approved Person on behalf of a Member may be paid by the Member to an unregistered corporation provided that:

- (i) such arrangements are not prohibited or otherwise limited by the relevant securities legislation or securities regulatory authorities;
- (ii) the corporation is incorporated under the laws of Canada or a province or territory of Canada;
- (iii) the Member, Approved Person and the unregistered corporation have entered into an Agreement in writing, in a form prescribed by the Corporation, in favour of the Corporation, the terms of which provide that:
 - (A) the Member and Approved Person shall comply with applicable MFDA By-laws and Rules and securities legislation and remain liable to third parties, including clients, irrespective of whether any remuneration, gratuity, benefit or any other consideration is paid to an unregistered corporation and no such payment shall, in and of itself, in any way limit or affect the duties, obligations or liability of the Member or Approved Person under MFDA Rules and applicable securities legislation;

(B) the Member shall engage in appropriate supervision with respect to the conduct of the Approved Person and the unregistered corporation to ensure such compliance as referred to in (A), above; and

(C) the Approved Person and the unregistered corporation shall provide the Member, the applicable securities commission and the MFDA with access to all books and records maintained by or on behalf of either of them for the purpose of determining compliance with MFDA Rules and applicable securities legislation.

(c) **Arrangements Prohibited.** Paragraph (b) does not apply in respect of any such remuneration, gratuity, benefit or other consideration derived from a client in Alberta.