



Mutual Fund Dealers Association of Canada  
Association canadienne des courtiers de fonds mutuels  
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**MR-0001**

**March 16, 2001**

## **MEMBER REGULATION NOTICE**

### **TRANSITION PERIODS**

Section 39 of MFDA By-law No. 1 provides that the Board of Directors may suspend or modify the application of any By-law, Rule or provision thereof for such period of time as it may determine.

In this regard, the MFDA Board has approved the following transition periods commencing March 1, 2001 suspending or modifying the application of certain MFDA Rules:

#### **1. Individual Qualifications**

- Two-year transition period for experience requirement for branch managers where not already required under securities legislation. (*Rule 1.2.2(b)*)
- One-year transition period for course requirements for all branch managers, including alternates where not already required under securities legislation. (*Rule 1.2.2(a)*)
- One-year transition period for course requirements for trading partners, officers and directors of Level 1 Dealers. (*Rule 1.2.3(b)*)

**Notwithstanding the MFDA transition periods outlined above, the proficiency requirements imposed by provincial securities legislation with respect to the above categories of registered individuals remain in effect. Therefore, to the extent that provincial securities legislation imposes higher proficiency standards, Members who wish to rely on the above MFDA transition periods must first apply to the relevant provincial securities commission for an exemption from the applicable securities legislation.**

#### **2. Minimum Capital**

- One-year transition period for Level 1 dealers to meet capital requirement of \$25,000. (*Rule 3.1.1*)
- Three-year transition period for Levels 2, 3 and 4 dealers to meet capital requirements of \$50,000, \$75,000 and \$200,000, respectively. (*Rule 3.1.1*)

**Please refer to Appendix “A” for more detailed information with respect to these transition periods, including the interim minimum capital levels required for each year. Also note the position of the British Columbia securities commission described in the footnote to Appendix A.**

### **3. Financial Reporting Requirements of Members**

Two-year transition period to allow Members to comply with the MFDA monthly financial reporting requirement. During this transition period, the MFDA will require Members to file with the MFDA financial reports on a quarterly basis, but retains the right to require more frequent financial reporting at any time during this period if a Member’s circumstances deem it necessary. *(Rule 3.5.1(a))*

### **4. Delivery of Account Statements**

Two-year transition period to provide Members who operate in client name to comply with the account statement requirement provided the Member satisfies itself with respect to each mutual fund security held by its clients that the mutual fund companies are sending out account statements. *(Rule 5.3.1)*

**Members who wish to rely on this transition period may need to apply for an exemption from the delivery requirements for account statements that are imposed by provincial securities legislation in certain jurisdictions.**

**Members should also note that the MFDA has suspended the operation of Rule 5.3.5, which permits the delivery of consolidated statements, until such time as it has been published for comment and approved by the relevant securities commissions.**

### **5. Remuneration, Commissions and Fees**

Three-year transition period for implementation of Rule 2.4.1, which requires commissions to be paid by a dealer directly to a salesperson.

This transition period will only be available on condition that: (i) Members and Approved Persons comply with the remaining MFDA Rules, with specific reference to Rule 1 entitled “Business Structures and Qualifications” and Rule 1.2.1(d) entitled “Dual Occupations”; and (ii) the recipient of commissions on behalf of an Approved Persons that is not registered as a dealer or salesperson agrees to provide to the MFDA, the relevant securities commission and the applicable Member access to its books and records for the purpose of determining compliance with the Rules of the MFDA and applicable securities legislation.

**The MFDA has been advised that the British Columbia and Alberta Securities Commissions will not allow Members operating in the provinces of British Columbia and Alberta to rely on this transition period. Accordingly, such**

**Members must pay commissions directly to all salespersons registered in these jurisdictions. For further information regarding the position of the Alberta and British Columbia Securities Commissions on commission payments, please contact staff at these securities commissions directly.**

## **6. Submission of Financial Information**

One-year transition period to permit applicants for membership to submit most recently audited financial statements as opposed to audited financial information not more than 90 days old as required by section 11.2.1 of the MFDA By-law. The most recent audited financial information must be supplemented with unaudited financial information. *(Please refer to the MFDA Membership Application Package for further details regarding the financial information that must be submitted when applying for MFDA membership.)*

## **7. Early Warning Requirements**

Two-year transition period for the implementation of automatic early warning sanctions. This will allow Members to become familiar with the new capital and early warning requirements prior to becoming subject to the sanctions set out in the MFDA Rules. Notwithstanding this transition period, the MFDA reserves the right to request financial information from a Member and implement the sanctions set out under the Rules. *(Rule 3.4)*

## **8. Transfer of Accounts**

For those sales representatives that establish their own dealership, two-year transition period with respect to the provisions of Rule 2.12 to permit “bulk transfers” of accounts by way of negative confirmation provided the Member and the agent have agreed to such a transfer and the securities are in “client name”. “Bulk transfers” are transfers of client accounts that are effected without the prior written approval of clients. Clients must be advised of the transfer in advance however, and informed that if they do not wish to have their account transferred they must contact the agent and/or dealer to confirm this. This transition period is not available for “inter-dealer” transfers by an agent. In such circumstances, the client authorization must be obtained in accordance with Rule 2.12.2.

## **9. Related Member Guarantees**

Rule 3.2.4, which requires each Member to be responsible for and to guarantee the obligations to clients incurred by each of its related Members, has been suspended until such time as the MFDA Investor Protection Plan (“IPP”) provides coverage to clients of MFDA Members. Before the MFDA IPP begins offering coverage, the MFDA will publish a standard Related Member Guarantee form for use by Members.

# APPENDIX A

## MINIMUM CAPITAL LEVELS

Rule 3.1.1 requires Members to maintain minimum capital levels in the following amounts:

Level 1 - \$25,000

Level 2 - \$50,000

Level 3 - \$75,000

Level 4 - \$200,000

There is a one-year transition period for Level 1 Dealers (or Introducing Dealers) and a three-year transition period for all other MFDA Members to achieve the above minimums.\*

Prior to being accepted into membership, applicants must have minimum capital in the amounts outlined below and risk adjusted capital greater than zero. At the time of MFDA staff's review of the application, staff will contact the applicant and request the applicant complete and submit an unaudited financial questionnaire. The unaudited financial questionnaire should be prepared as at the applicant's most recent month end and should evidence the fact that the applicant maintains the required amount of capital.

Members and applicants will be expected to maintain the following minimum capital levels as at:

	Date of Application	March 1, 2002	March 1, 2003	March 1, 2004
Level 1	\$15,000**	\$25,000	\$25,000	\$25,000
Level 2	\$25,000	\$35,000	\$45,000	\$50,000
Level 3	\$25,000	\$40,000	\$55,000	\$75,000
Level 4	\$25,000	\$85,000	\$145,000	\$200,000

\* Mutual fund dealers operating in the province of British Columbia should be aware that, notwithstanding the MFDA's transition periods outlined above, the MFDA understands that the British Columbia Securities Commission will not provide an exemption from their minimum capital requirements. The Securities Act (British Columbia) requires a minimum capital level of \$25,000 for mutual fund dealers that do not hold client funds in trust and \$75,000 for mutual fund dealers that do hold client funds in trust.

\*\* Level 1 Dealers who maintain minimum capital of less than \$25,000 will have to apply to the relevant securities commission for an exemption from the legislated minimum capital requirement