



Mutual Fund Dealers Association of Canada
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MR-0026

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MEMBER REGULATION NOTICE

TRANSITION PERIODS

This Notice replaces Member Regulation Notice MR-0001 “Transition Periods” issued on March 16, 2001. The transition periods set out in MR-0001 have expired with the exception of the suspension of Rule 2.4.1 (Payment of Commissions to Non-Registered Entities) and Rule 3.2.4 (Related Member Guarantees).

1. Rule 2.4.1 (Payment of Commissions to Non-Registered Entities) - Extension of Transition Period to December 31, 2006

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.

MFDA Rule 2.4.1 requires that any remuneration in respect of business conducted by an Approved Person on behalf of a Member be paid by the Member (or an affiliate) directly to and in the name of the Approved Person. Recognizing that the implementation of Rule 2.4.1 could result in significant disruption to the industry, the MFDA Board of Directors approved a 3-year transition period for Rule 2.4.1, commencing March 1, 2001, to provide provincial securities regulators time to work with the industry to consider this matter further.

As part of their terms and conditions for recognizing the MFDA as a self-regulatory organization, the Ontario and Saskatchewan Securities Commission agreed to allow a transition period of 3 years before Members will have to comply with Rule 2.4.1. On February 26, 2002, the British Columbia Securities Commission passed Local Instrument 32-503 “Registration Exemption for Salespersons’ Corporations” (“BCI 32-503”), which permits MFDA Members to pay commissions to salespersons’ corporations subject to the conditions set out in the Instrument. Accordingly, Members with Approved Persons registered in these jurisdictions may pay commissions on behalf of those Approved Persons to a corporation that is itself not registered as a dealer or a salesperson notwithstanding the provisions of Rule 2.4.1, provided the conditions prescribed by the MFDA in Member Regulation Notice MR-0002 (Payment of Commissions to Non-Registered Entities) and BCI 32-503 are met.

The transition period for Rule 2.4.1 was to expire on March 1, 2004. The MFDA Board of Directors has approved an extension of the suspension period for Rule 2.4.1 to December 31, 2006.

In recognition of the extension of the transition period, the Nova Scotia Securities Commission (“NSSC”) issued on February 18, 2004, Notice No. 31-702 entitled “In the Matter of MFDA Rule 2.4.1” (the “NS Notice”). In the NS Notice, the NSSC accepts the suspension of MFDA Rule 2.4.1 for the transition period and provides that during the transition period, a MFDA Member (or an affiliate of the Member) may pay any remuneration in respect of business conducted by the Approved Person on behalf of the Member directly to a corporation provided that the corporation does not trade or advise in securities.

Members and their Approved Persons registered in Ontario, British Columbia, Saskatchewan and Nova Scotia are reminded that, as a condition of relying on the suspension of Rule 2.4.1, they must continue to comply with the requirements set out in Part 2 of MR-0002 (Payment of Commissions to Non-Registered Entities), BCI 32-503 and the NS Notice.

Securities Regulatory Authorities in Alberta and New Brunswick have advised the MFDA that they will not allow Members operating in those provinces to rely on this transition period. Accordingly, Members must pay commissions directly to all salespersons registered in these jurisdictions.

2. Rule 3.2.4 (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 a protection plan provides coverage clients of MFDA Members. Before the protection plan begins offering coverage, the MFDA will publish a standard Related Member Guarantee form for use by Members.