



Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels
121 King Street West, Suite 1000, Toronto, Ontario, M5H 3T9
TEL: 416-361-6332 FAX: 416-943-1218 WEBSITE: www.mfda.ca

MR-0043
July 5, 2005

MEMBER REGULATION NOTICE

REFERRAL ARRANGEMENTS IN RESPECT OF SPECIFIC SECURITIES

MFDA staff has become aware of certain issuers and investment counsel and portfolio managers (“ICPMs”) that have been actively promoting and marketing referral arrangements to MFDA Members tied to specific securities. While these arrangements are structured as referrals, it appears that they are not operating as such in practice. MFDA staff is of the view that where a referral is tied to a specific security rather than a general service, it is more likely to lead to acts in furtherance of a trade, and may serve as a means for Members to sell a specific security through another party.

1. Referral Arrangements Tied to Specific Securities that the Member is Not Registered to Sell Directly

In many cases the specific securities in respect of the referrals are not securities that the Member is appropriately registered or licensed to sell directly. The concern with such arrangements is that in most cases they result in Members and their Approved Persons giving advice and making recommendations with respect to the specific security without having the required licensing or proficiency to do so. Accordingly, MFDA Staff cautions Members from entering into referral arrangements tied to specific securities, as it will be difficult in such situations to monitor compliance to ensure that they and their Approved Persons act within the limits of their registration.

2. Referral Arrangements Tied to Specific Securities that the Member is Registered to Sell Directly

Where the Member is appropriately registered or licensed to sell the security directly, the Member should not be entering into a referral arrangement with another entity with respect to the security. By providing advice on a specific security, Approved Persons may be acting on behalf of a registrant other than their sponsoring dealer, contrary to securities legislation and MFDA Rules. MFDA Rule 1.1.1 requires that all securities related business be carried out for the account of the Member and through the facilities of the Member.

For further information respecting MFDA requirements for referral arrangements please refer to *Member Regulation Notice MR-0030 – Referral Arrangements*. Members and Approved Persons may be subject to enforcement proceedings where they fail to meet these requirements.