



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

MEMBER OBLIGATIONS REGARDING SERVICE PROVIDERS

This Notice is being issued to clarify the obligations of Members with respect to compliance with requirements under MFDA By-laws, Rules and Policies, where the Member has entered into introducing/carrying arrangements, or has engaged third party service providers.

Under MFDA Rule 1.1.3, a Member or Approved Person may engage the services of any person including another Member or Approved Person, to provide services to the Member or Approved Person, as the case may be, provided that the Member or Approved Person engaging the services remains responsible for compliance with MFDA By-laws and Rules and any applicable legislation.

MFDA Rule 1.1.6(b)(xii) respecting introducing/carrying arrangements, states that, unless otherwise provided for in the Rules, Level 2, 3 or 4 introducing dealers are responsible for compliance with the By-laws and Rules for each account introduced to a carrying dealer by the introducing dealer, subject to the carrying dealer being also responsible for compliance with respect to those functions it agrees to perform under the arrangement.

MFDA staff have become aware of certain instances where Members have engaged third party service providers for the purpose of developing and installing back office and other systems that do not provide the functionality required to meet regulatory requirements. Under Rule 1.1.3, Members have an obligation to ensure that services provided by any third party allow for the Member to comply with MFDA By-laws and Rules. Further, under Rule 1.1.6, Level 2, 3 and 4 Members that act as introducing dealers are jointly responsible with carrying dealers for compliance regarding services provided by the carrying dealer. Therefore, Members that choose to enter into introducing/carrying arrangements or engage outside service providers must satisfy themselves that the services will meet all applicable regulatory expectations. Members must consider these obligations when performing their due diligence investigations prior to entering into such arrangements.

In the event that a Member discovers that any existing outsourced services do not comply with regulatory requirements, any such deficiencies should be immediately rectified. In the event that any significant period of non-compliance is likely to occur before the problem can be remedied, the Member must notify the Compliance Department of the MFDA of the concerns and advise as to the Member's proposed solution.