



Mutual Fund Dealers Association of Canada
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MR-0051

December 22, 2005

MEMBER REGULATION NOTICE

CAPITAL PROVISIONS FOR UNRESOLVED DIFFERENCES IN NOMINEE NAME ASSETS

The purpose of this Notice is to remind Level 4 Members who hold client securities and other investment products in nominee name of the requirements to reconcile their position records to third party information on at least a monthly basis. This Notice applies to all Members holding client assets in nominee name including those held by a Member in its capacity as agent for the trustee.

MFDA Requirements

MFDA Internal Control Policy Statement 4, Cash and Securities, requires the Member to produce a report from its trading system of client securities owned by clients but registered in the name of, or held by, the Member that require segregation and then reconcile the report to third party information to identify deficiencies. If third party documentation is not obtained and/or reconciliations of client securities positions are not being done on a monthly basis the Member is required to take a margin provision on its regulatory capital equal to 100% of the market value of such securities or other investment products held on behalf of clients plus the applicable margin rates related to the securities, in accordance with the Notes and Instructions to Statement B line 12 of the Form 1 Financial Questionnaire and Report ("FQR").

Capital Implications if Third Party Information is Not Provided

We understand that certain issuers of Guaranteed Investment Certificates ("GICs") or mutual funds may not currently be providing MFDA Members with monthly statements. The inability of the Member to obtain third party information on a monthly basis does not exempt the Member from requirements to comply with the reconciliations of nominee name assets on a monthly basis. Furthermore, a reconciliation of client security positions according to the Member's records to a trade confirmation is not considered an appropriate reconciliation to satisfy the related requirements of Internal Control Policy Statement 4 and the corresponding capital implications according to the FQR. If a Member is unable to obtain third party information from financial institutions, mutual fund companies, or any other applicable entities to comply with reconciliation requirements, it must be prepared to maintain sufficient regulatory capital to cover the unresolved differences resulting from its inability to substantiate the existence of the client assets to third party information.

Where Members are currently dealing with mutual fund companies, financial institutions or other entities that are not providing adequate information to the Member on a monthly basis, we expect the Member to take immediate action to ensure full compliance with the reconciliation and capital requirements going forward. Appropriate action on the part of a Member may include ceasing to sell products of those specific financial institutions or fund companies that are unable to provide statements on a monthly basis. Alternatively, additional capital may be injected into the Member to cover the margin provision of the client securities or other investment products that have not been reconciled at least monthly.

Doc #73458-v1