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**MR-0063**  
June 18, 2007

## MEMBER REGULATION NOTICE

### EXTENSION TO EFFECTIVE DATE OF ACCEPTABLE SECURITIES LOCATIONS REQUIREMENT

This purpose of this Notice is to advise Members that the transition period set to expire on June 30, 2007 has been extended to **December 31, 2007, provided the Member complies with additional reporting requirements as outlined below.**

#### Background

On December 14, 2006, the MFDA issued Member Regulation Notice MR-0058, Acceptable Securities Locations ("MR-0058"), providing guidance to Members regarding certain requirements under MFDA Rule 3.3. Members were advised in MR-0058 that a transition period would apply until June 30, 2007 to allow Members to ensure that all mutual fund companies and financial institutions that hold Member assets, or client assets held in nominee name of Members, sign the prescribed Custodial Agreement with the MFDA, or alternatively that the Member executes a custodial agreement with the entity itself containing the provisions of Rule 3.3.3(b). A list of entities that have executed the MFDA prescribed Custodial Agreement on the website at <http://www.mfda.ca/regulation/forms/CustodialAgreements.pdf>.

#### Reporting Requirements

Effective June 30, 2007, all Members seeking to rely on the extended transition period are required to provide the following additional information to the MFDA with each monthly financial report submitted in accordance with Rule 3.5.1(a) until otherwise notified:

- A list of all mutual fund companies and financial institutions that hold securities or other investment products on behalf of the Member that have not executed a written custodial agreement with either the MFDA or the Member directly as at the due date of the FQR
- Total market value of all securities and other investment products held in the Member's name at each mutual fund company and financial institution that has not executed a

written custodial agreement with either the MFDA or the Member directly as at the due date of the FQR.

MFDA compliance staff will be reviewing the supplemental information required above with the Member's monthly financial reports. The MFDA expects the total market value of securities and other investment products held at locations that do not qualify as acceptable securities locations to decrease with each monthly filing received. In order to ensure the market value of such assets decreases monthly, the MFDA recommends that where Members are encountering resistance from mutual fund companies or financial institutions to enter into a compliant custodial agreement to **cease trading in the mutual fund and/or other asset** issued and held by the respective entity. Where MFDA staff identifies situations where the Member's exposure to assets held at non-acceptable securities locations has increased from the prior period, additional reporting requirements and/or early warning conditions may be imposed on the Member.

Effective **January 1, 2008**, if a Member holds securities or other investment products at an external location that does not qualify as an acceptable securities locations, the Member will be required to provide a margin provision on Statement B line 11, in accordance with the Notes and Instructions to Statement B of the FQR. The margin deducted against the Member's regulatory capital will be equal to 100% of the market value of securities or other investment products held at the external location.

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