



Contact: Paige Ward
Director, Policy and Regulatory Affairs
Phone: (416) 943-5838
Email: pward@mfd.ca

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MEMBER REGULATION NOTICE

PROHIBITION ON USE OF PRE-SIGNED FORMS

The purpose of this Notice is to emphasize that it is contrary to MFDA requirements for Members and Approved Persons to obtain pre-signed forms from their clients. Members may only use forms that are duly executed by the client after information on the form has been properly completed.

As indicated in Bulletin #0183-C and Bulletin #0056-C, where MFDA staff find pre-signed forms in the course of completing compliance reviews, these deficiencies may be referred directly to the MFDA Enforcement Department. Despite providing these cautions, MFDA staff continues to find evidence of pre-signed forms, resulting in referrals to Enforcement.

Some examples of pre-signed forms noted by staff include blank trade order forms, cheques or account application forms pre-signed by clients, or blank pre-signed forms indicating branch manager or head office approval that have no other information filled in. In other cases, information on legitimately completed and signed forms may be subsequently altered or removed, or signatures may be physically cut from other documents and then used to create photocopied forms that appear to have been signed by the client.

Use of Pre-Signed Forms

The existence of pre-signed trade order forms in client files may be evidence that an Approved Person is engaging in discretionary trading. Under securities legislation and MFDA Rules Members and Approved Persons are not permitted to accept discretionary trading authority from a client.

Some Members and Approved Persons have taken the position that pre-signed forms can be used appropriately in certain situations strictly for the convenience of a client. MFDA staff does not agree with this position. Even in cases where there is no evidence of intent to use a pre-signed form for the purpose of discretionary trading, the use of such forms must be prohibited in part because their existence destroys the integrity of the audit trail for activity in the relevant client's account.

Limited Trading Authorization

MFDA staff remind Members and Approved Persons that under MFDA Rule 2.3.2, Members and Approved Persons may accept a limited trading authorization from a client for the express purpose of facilitating trade execution and thereby avoid the requirement to obtain a client signature for all trade orders placed for the client. More information on the use of limited trading authorizations is provided in MFDA Member Regulation Notices MR-0038 and MR-0042.

Supervision

Members are expected to develop policies and procedures that are designed to detect and prevent the use of pre-signed forms and discretionary trading and are urged to address these issues as a priority.

Members are reminded of their obligation to establish a Branch Review Program to effectively assess and monitor compliance with regulatory requirements at all branch locations, as required by MFDA Policy 5. While it may be difficult for Members to detect evidence of pre-signed forms until a client submits a complaint, Members must review client files, including branch files and files maintained by the Approved Person, as part of their Branch Review Program.

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