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MEMBER REGULATION NOTICE

MISLEADING COMMUNICATIONS REGARDING LEVERAGE

On August 18, 2005, MFDA staff issued Bulletin #0160-C regarding certain communications sent to MFDA Members by various financial institutions with fund manager affiliates. These communications, which contained misleading promotional information concerning investment loans, were circulated contrary to the best interests of investors. The issue of supervisory concerns relating to misleading marketing materials was subsequently noted in Member Regulation Notice MR-0069 *Suitability Guidelines*.

MFDA staff continues to note issues with respect to misleading statements made by Members, Approved Persons and loan providers or intermediary entities involved in the marketing of leveraged strategies. Some examples of such misleading communications include statements such as:

- suggestions that leverage is appropriate for all clients;
- promises to clients to "make your mortgage tax deductible";
- recommendations for the use of borrowed funds with "no additional risk";
- projections that presume unrealistic returns or feature overly optimistic examples; and
- statements that promise returns but provide no disclosure or inadequate disclosure of downside risk or potential negative returns.

Members and Approved Persons are cautioned against making or including misleading statements such as these in their own sales communications or other materials provided to clients.

Further, where an Approved Person becomes aware that a client has received misleading information regarding leverage through some other source, the Approved Person should take steps to make the client aware of the risks involved in borrowing to invest.