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

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MR-0071
February 10, 2009

MEMBER REGULATION NOTICE

REFERRAL ARRANGEMENTS WITH OTHER SECURITIES REGISTRANTS

This Notice is being issued to provide guidance to Members and their Approved Persons in complying with MFDA Rules and securities legislation when engaging in referral arrangements with other securities licensed registrants.

Background

During compliance examinations performed to date, the MFDA has noted that many Members have referral arrangements with investment dealers and investment counsel/portfolio management firms ("ICPMs"). Staff has identified situations where Approved Persons of Member firms are acting as "relationship managers" on behalf of the other registrant. In some cases, the other registrant may not meet the client or have little, if any, direct involvement with the client referred. Staff is aware of Approved Persons:

- Completing account opening documents, including obtaining Know-Your-Client ("KYC") information, for the other registrant;
- Receiving or accessing account information from the other registrant detailing the trading activities conducted outside the Member;
- Participating in meetings where clients are given investment advice with respect to an account of the other registrant.

Licensing Requirements

MFDA Rule 1.1.1 (a) requires an Approved Person to conduct all securities related activities on behalf of the Member and through the facilities of the Member. Where an Approved Person obtains KYC information to open an account at another registrant or advises in securities on behalf of another registrant, the Approved Person is acting contrary to MFDA Rule 1.1.1 and securities licensing requirements regardless of whether such arrangements are with affiliates of the Member.

Approved Persons can provide biographical information (for example, name, address, age, net income and net worth) at the request of the client to other parties. Clients may also give Approved Persons permission to obtain copies of statements of accounts held outside the Member and allow Approved Persons to participate in meetings or conversations with other registrants. However, such activity increases the risk that Approved Persons will act beyond the limits of their license. Members should have policies and procedures to prevent and detect non-

compliant activity. For example, Members should have policies and procedures for Approved Persons outlining activities that are not acceptable to engage in when referring a client to another registrant. Additionally, if a Member receives a complaint with respect to activity of an Approved Person in an account outside the firm, the Member is expected to investigate to determine if the Approved Person has acted within the scope of his or her license. Members should be aware of such activity during branch audits.

Members are also reminded that all referrals for securities related activities must comply with MFDA Rule 2.4.2 that requires an agreement be in place with the Member, disclosure to be provided to the client and fees recorded on the books and records of the Member. Further information on referral arrangements can be found in Member Regulation Notice MR-0030 (*Referral Arrangements*).

(doc #161725)