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

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MEMBER REGULATION NOTICE

LEVERAGE RISK DISCLOSURE

This Notice replaces Member Regulation Notice MR-0006 *Borrowing Money to Buy Securities (Leveraging)*, issued on March 16, 2001. The leverage risk disclosure previously provided in MR-0006 has been revised and will be replaced by the disclosure documents contained in this Notice.

When Disclosure Must Be Provided

Under MFDA Rule 2.6 (Borrowing for Securities Purchases), a leverage risk disclosure document containing information prescribed by the MFDA must be provided to all clients: (i) when a new account is opened; and (ii) when an Approved Person makes a recommendation for purchasing securities by borrowing or otherwise becomes aware of a client borrowing monies for the purpose of investment, provided such disclosure has not been provided within the previous six months.

What Disclosure Must Be Provided

The MFDA has drafted two separate disclosure documents: short-form disclosure attached as Appendix "A" and long-form disclosure attached as Appendix "B".

When an Approved Person makes a recommendation for purchasing securities by borrowing or otherwise becomes aware of a client borrowing monies for the purpose of investment in a non-registered account, the long-form disclosure (Appendix "B") must be provided.

At account opening (for all account types) or when an Approved Person makes a recommendation for purchasing securities by borrowing or otherwise becomes aware of a client borrowing monies for the purpose of investment in a Registered Retirement Savings Plan ("RRSP") or Registered Education Savings Plan ("RESP"), either the short-form disclosure (Appendix "A") or long-form disclosure (Appendix "B") can be used.

Transition

All Members must start providing the revised leverage risk disclosure to clients as of July 1, 2010.

MFDA staff is aware that while some Members currently provide leverage risk disclosure as a stand-alone document, others have incorporated it into their New Account Application Form ("NAAF") or other account opening documentation. MFDA staff is also aware that it may be difficult for the latter category of Members to amend their account opening documentation to include the revised leverage risk disclosure when those Members will likely have to amend their account opening documentation next year when we expect the proposed requirements in respect of relationship disclosure information ("RDI"), made as part of the MFDA's proposed Client Relationship Model amendments, to come into effect. MFDA staff is of the opinion that it would not be feasible to extend the date of implementation of the revised leverage risk disclosure that far into the future, given CSA and other stakeholder expectations.

Therefore, Members who presently incorporate leverage risk disclosure into their account opening documentation and who do not wish to amend that documentation at this time must provide the revised leverage risk disclosure on a stand-alone basis to clients along with their other account opening documents. While MFDA staff recognizes that in these cases clients will be receiving both the old and revised leverage risk disclosure, we believe this would cause minimal client concern and would be preferable to clients not receiving the revised leverage risk disclosure until sometime in 2011. When CSA and Member approval has been granted for the MFDA's proposed RDI amendments, Members may then make any necessary NAAF changes to incorporate both the RDI and revised leverage risk disclosure and cease providing the stand-alone document.

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Appendix "A"

"Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines".

Appendix "B"

Risk of Borrowing to Invest

Here are some risks and factors that you should consider before borrowing to invest:

Is it Right for You?

- Borrowing money to invest is risky. You should only consider borrowing to invest if:

    - You are comfortable with taking risk.
    - You are comfortable taking on debt to buy investments that may go up or down in value.
    - You are investing for the long-term.
    - You have a stable income.

  You should <u>not</u> borrow to invest if:

    - You have a low tolerance for risk
    - You are investing for a short period of time.
    - You intend to rely on income from the investments to pay living expenses.
    - You intend to rely on income from the investments to repay the loan. If this income stops or decreases you may not be able to pay back the loan.

You Can End Up Losing Money

- If the investments go down in value and you have borrowed money, your losses would be larger than had you invested using your own money.
- Whether your investments make money or not you will still have to pay back the loan plus interest. You may have to sell other assets or use money you had set aside for other purposes to pay back the loan.
- If you used your home as security for the loan, you may lose your home.
- If the investments go up in value, you may still not make enough money to cover the costs of borrowing.

Tax Considerations

- You should not borrow to invest just to receive a tax deduction.
- Interest costs are not always tax deductible. You may not be entitled to a tax deduction and may be reassessed for past deductions. You may want to consult a tax professional to determine whether your interest costs will be deductible before borrowing to invest.

Your advisor should discuss with you the risks of borrowing to invest.