



Mutual Fund Dealers Association of Canada
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MFDA Bulletin

Policy

For Distribution to Relevant Parties within your Firm

Housekeeping Amendments to MFDA Rule 2.2.1; Section 23 of MFDA By-law No.1; MFDA Financial Questionnaire and Report (Part I Auditors' Report) and MFDA Internal Control Policy Statements

The MFDA Board of Directors approved certain housekeeping amendments to MFDA Rule 2.2.1 ("Know-Your-Client"); Section 23 of MFDA By-law No.1; the MFDA Financial Questionnaire and Report (Part I Auditors' Report) and the MFDA Internal Control Policy Statements on September 14, 2005. These amendments have received the requisite approvals and are now in effect.

1. MFDA Rule 2.2.1 ("Know-Your-Client")

The amendment to MFDA Rule 2.2.1 adds the phrase "and Approved Person" to the preamble section of Rule 2.2.1. The amendment is intended to clarify that the "Know-Your-Client" ("KYC") and suitability obligations of MFDA Rule 2.2.1 apply to both Members and Approved Persons. The amended Rule is attached.

2. Section 23 of MFDA By-law No. 1

Section 23 of MFDA By-law No.1 provides that the MFDA may exchange information with any securities commission or regulatory authority, law enforcement agency, self-regulatory organization, stock exchange, other trading market, customer or investor protection or compensation fund or plan or other organization regulating or providing services in connection with securities trading located in Canada or any other country. The wording of section 23 of

MFDA By-law No.1 suggested that the type of information that may be exchanged with other regulators is limited to securities-related matters.

The Terms and Conditions of Recognition of the MFDA as a self regulatory organization (“Terms and Conditions”) direct that “the MFDA shall cooperate, by sharing information and otherwise, with IPPs, the Commission and its staff, and other Canadian federal, provincial and territorial recognized self-regulatory organizations and regulatory authorities, including without limitation, those responsible for the supervision or regulation of securities firms, financial institutions, insurance matters and competition matters.” The Terms and Conditions do not limit the type of information to be shared to securities related matters.

Amendments to section 23 of By-law No.1 have been made to make it consistent with the Terms and Conditions of Recognition and to clarify that the MFDA has the authority to comply with the recognition orders. The amended section 23 of By-law No. 1 is attached.

3. MFDA Financial Questionnaire and Report (Part I Auditors’ Report)

The amendments to the Part I Auditors’ Report of the MFDA Financial Questionnaire and Report have been made to reflect the requirements of section 5600 of the Canadian Institute of Chartered Accountants Handbook. Section 5600 requires auditors engaged to report on financial statements prepared using a basis of accounting other than Generally Accepted Accounting Principles to modify their standard Auditor’s Report to disclose this fact to the financial statement users. This section applies when the financial statements are prepared in accordance with regulatory or legislative requirements to meet the specific needs of a regulator or a legislator (s. 5600.04(a)). The amended MFDA FQR is attached.

4. MFDA Internal Control Policy Statements

MFDA Internal Control Policy Statements prescribe requirements for and provide guidance on compliance with MFDA Rule 2.9, which requires that Members establish and maintain internal controls as prescribed by the Corporation from time to time. For consistency of reference with other MFDA Policies and to avoid Member confusion, the MFDA Internal Control Policy Statements have been collectively renamed “MFDA Policy No.4 – Internal Control Policy Statements”.

(docs #71902)

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

MFDA Rule 2.2.1 (“Know-Your-Client”)

On September 14, 2005, the Board of Directors of the Mutual Fund Dealers Association of Canada made and enacted the following housekeeping amendment to Rule 2.2.1:

2.2.1 “Know-Your-Client”. Each Member and Approved Person shall use due diligence:

- (a) to learn the essential facts relative to each client and to each order or account accepted;
- (b) to ensure that the acceptance of any order for any account is within the bounds of good business practice; and
- (c) to ensure that each order accepted or recommendation made for any account of a client is suitable for the client and in keeping with the client's investment objectives; and
- (d) to ensure that, notwithstanding the provisions of paragraph (c), where a transaction proposed by a client is not suitable for the client and in keeping with the client's investment objectives, the Member has so advised the client before execution thereof.

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

MFDA By-law No.1, section 23 (Co-operation with other Authorities)

On September 14, 2005, the Board of Directors of the Mutual Fund Dealers Association of Canada made and enacted the following housekeeping amendments to section 23 of MFDA By-law No.1:

23. CO-OPERATION WITH OTHER AUTHORITIES

23.2 Agreements

The Corporation may enter into in its own name agreements or arrangements with any securities commission or regulatory authority, law enforcement agency, self-regulatory organization, stock exchange, other trading market, customer or investor protection or compensation fund or plan or other organization regulating or providing services in connection with securities trading located in Canada or any other country for the exchange of any information (including information obtained by the Corporation pursuant to the By-laws or Rules or otherwise in its possession) and for other forms of mutual assistance for market surveillance, investigation, enforcement and other regulatory purposes. ~~relating to trading in securities in Canada or elsewhere.~~

23.3 Assistance

The Corporation may provide to any securities commission or regulatory authority, law enforcement agency, self-regulatory organization, stock exchange, other trading market, customer or investor protection or compensation fund or plan or other organization regulating or providing services in connection with securities trading located in Canada or any other country any information obtained by the Corporation pursuant to the By-laws or Rules or otherwise in its possession and may provide other forms of assistance for surveillance, investigation, enforcement and other regulatory purposes. ~~relating to trading in securities in Canada or elsewhere.~~

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

MFDA FINANCIAL QUESTIONNAIRE AND REPORT PART I - AUDITORS' REPORT

On September 14, 2005, the Board of Directors of the Mutual Fund Dealers Association of Canada made and enacted the following housekeeping amendments to the MFDA Financial Questionnaire and Report (Part I Auditors' Report):

TO: The MFDA and the MFDA Investor Protection Corporation.

We have audited the following Part I financial statements of _____:
(firm)

Statement A — Statements of assets and of liabilities and shareholder/partner capital;

Statement B — Statement of risk adjusted capital,
as at _____ 20__ and _____ 20__;
(date) *(date)*

Statement C — Statement of early warning excess and early warning tests;

Statement D — Summary statement of income for the years ended _____ 20__
(date)
and _____ 20__;
(date)

Statement E — Statement of changes in capital and retained earnings
(corporations) or undivided profits (partnerships); and

Statement F — Statement of changes in subordinated loans for the year ended _____
20__.
(date)

These financial statements have been prepared for the purpose of complying with the By-laws, Rules and Policies of the MFDA. These financial statements are the responsibility of the firm's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. ~~Our audits also included the audit procedures prescribed by the By-laws, Rules and Policies of the MFDA.~~

In our opinion,

- (a) the statements of assets and of liabilities and shareholder/partner capital and the summary statement of income present fairly, in all material respects, the financial position of the firm as at _____ 20__ & _____ 20__ and the results of its operations for *(dates)* the years then ended in the form required by the MFDA in accordance with generally accepted accounting principles, except as modified by the requirements of the MFDA, the basis of accounting described in the Notes to the Financial Questionnaire and Report.

(b) the statement of risk adjusted capital, as at _____ 20____ &
(date)
_____ 20____ and the statements of early warning excess and early warning tests,
(date)
changes in capital and retained earnings (corporations) or undivided profits (partnerships),
and changes in subordinated loans, either as at or for the year ended
_____ 20____
(date)
are presented fairly, in all material respects, in accordance with the applicable instructions of
the MFDA.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the firm, the MFDA and the MFDA Investor Protection Corporation, to comply with the By-laws, Rules and Policies of the MFDA. The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

[auditing firm name]

[date]

[signature]

[place of issue]