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For distribution to relevant parties within your firm

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Due Diligence Guidelines on Principal-protected Notes

The Investment Dealers Association of Canada (IDA) has commissioned the production of “Due Diligence Guidelines on Principal-protected Notes” to assist Member firms and registrants in meeting their know your product requirements as they relate to principal-protected notes, a market which has experienced rapid growth in Canada.

The guide will assist investment dealers, their registered representatives and investors to evaluate the merits and risks of a principal-protected note. The guide addresses due diligence questions such as evaluating the principal-protected note’s issuer and structurer, its product features and liquidity, fees and expenses and investor risks. Appendix II provides a comprehensive Due Diligence Questionnaire.

The Guide was developed to implement a recommendation made in “Regulatory Analysis of Hedge Funds”, a special study produced by the IDA in May, 2005. As securities, hedge funds and principal-protected notes fall within the ambit of IDA regulations as to suitability. Because an important component of suitability is due diligence, the study called on the IDA to issue guidelines to help firms and registrants make suitable recommendations to clients regarding these highly complex products.

The guide was prepared for the IDA by Andre Fok Kam and builds partly on the research work on hedge funds and structured products which he performed for the IDA- sponsored 2006 Task Force to Modernize Securities Legislation in Canada. Mr. Fok Kam specializes in advising businesses and regulatory authorities on financial, strategic and regulatory matters.

Copies of the Guide are available electronically at www.ida.ca. To obtain a hard copy of the guide, please contact Public Affairs at publicaffairs@ida.ca or call Lisa Zabolotin at 416-943-5846.

Kenneth A. Nason

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