



## MEMBER REGULATION

# notice



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**MR0296**

*June 11, 2004*

**ATTENTION:**

Ultimate Designated Persons  
Chief Financial Officers  
Panel Auditors

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### **Joint Service and Omnibus Arrangements Between IDA and MFDA Members**

This joint regulatory notice has been prepared by the Investment Dealers Association of Canada, and the Mutual Fund Dealers Association of Canada (collectively, the self-regulatory organizations or "SROs").

#### **Background**

At the request of the Ontario Securities Commission (OSC), a joint project was undertaken by the IDA and MFDA to review certain business arrangements between IDA and MFDA member firms. The project's objective was to analyze the types of arrangements currently in place, identify any regulatory concerns they might raise, and suggest solutions, where possible.

Two arrangements examined include (1) joint service arrangements and (2) omnibus arrangements. They are described as follows:

- (i) Joint Service Arrangements** – In this type of arrangement between IDA and MFDA Members, salespersons of either organization service and trade in client accounts of the other Member. When mutual fund salespersons service IDA Member accounts, they trade in mutual funds and other securities that they are appropriately licensed to sell, and have a business arrangement with the IDA Member who trades in securities they are not licensed to sell ("prohibited securities").
- (ii) Omnibus Arrangements** – SRO staff found several variations of this arrangement. In general, MFDA Members have entered into arrangements with IDA Members to transact in and hold prohibited securities for the MFDA Members' clients. When a client wants to transact in prohibited securities, the client is referred to the IDA Member. An IDA representative is only responsible for the execution of the trade. However, proceeds from a sale or securities from a purchase are received into an omnibus account at the IDA Member in the name of the MFDA Member.

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The joint service and omnibus arrangements raise significant investor protection concerns as described in detail in the issues paper the OSC will be publishing (as noted below). The OSC and SROs (collectively the “regulators”) have, therefore, determined that:

- (i) As of the date of this notice, IDA and MFDA Members should not enter into any new joint service or omnibus arrangements; and
- (ii) IDA and MFDA Members should not accept new clients utilizing any existing arrangements.

We expect the industry to abide by these requirements immediately. However, we recognize that some transition may be necessary for the industry to become fully compliant with (ii); we will, therefore, allow IDA and MFDA Members until July 31, 2004 to become fully compliant with this requirement.

The regulators had considered requiring IDA and MFDA Members to unwind joint service and omnibus arrangements. However, the regulators recognize that dismantling these arrangements will have an impact on clients and the industry. As of the date of this notice, the OSC will also be publishing and sending an issues paper to Members asking for their input and inviting them to participate in a consultation process for the purpose of finding the most appropriate course of action.

If the regulators are unable to resolve these concerns, through consultation with the industry, the regulators will enforce current securities requirements by requiring Members to unwind joint service and omnibus arrangements by December 31, 2004. In the interim, the SROs must be advised of any change or modification to such arrangements to ensure compliance with this directive.

### **MFDA/IDA Introducer/Carrier Model**

At the time of the joint project, the MFDA was considering the possibility of becoming a participating SRO of the Canadian Investor Protection Fund (“CIPF”). If that was to occur, an opportunity would likely arise for MFDA/IDA introducer and carrier arrangements, which are currently prohibited. As an MFDA/IDA introducer/carrier arrangement may provide alternatives to address certain of the regulatory concerns with existing arrangements, the SROs will be assembling a working group of SRO staff and Members to consider such a structure. This structure is contingent upon the MFDA joining CIPF and receiving approval of the provincial regulatory authorities. Members should note that an MFDA/IDA introducer/carrier model will not address all regulatory concerns with existing arrangements. Further, the introducer/carrier model may not permit the consolidation of accounts of two different dealers that hold both prohibited securities and mutual funds.