



Compliance

interpretation bulletin

Conformité

bulletin d'interprétation

TO: CHIEF COMPLIANCE OFFICERS - IDA MEMBER FIRMS **October 12, 1993**
PANEL AUDITORS - IDA JURISDICTION FIRMS **C-62**
SALES MANAGEMENT PERSONNEL, INVESTMENT
ADVISORS - IDA MEMBER FIRMS

MUTUAL FUND SALES INCENTIVES

The implementation of By-law 29.12 is announced in IDA Bulletin #2020. In the period leading up to the implementation, we have had numerous discussions with Members concerning the application of the rule to certain sales incentives which are currently offered by mutual fund companies. The purpose of this interpretation bulletin is to give IDA staff views on these sales incentives.

By-law 29.12 prohibits Members or employees from accepting **non-cash** sales incentives in connection with the sale or distribution of mutual fund products. It further prohibits Members from paying such non-cash incentives to its employees in connection with the sale of mutual funds. In forming our responses to the situations posed, we have also considered By-laws 4.13, 7.5 and 18.6 which prohibit Member's employees from accepting payment with respect to any trade from any party other than the Member.

1. **Educational Conferences/Trips**

The By-law prohibits Members and their employees from participating in educational conferences/trips offered by mutual fund companies in connection with sales of their mutual funds.

A practice has developed in which some firms solicit contributions from mutual fund managers toward defraying expenses of a firm-sponsored educational conference. While such cash contributions are permitted, selection of employees for attendance at such conferences based on sales of the contributing company's funds is prohibited.

2. **Due Diligence Visits**

Due diligence visits are visits to the offices of a mutual fund manager for educational purposes. For such a visit to be permissible under the rules, the cost of the visit must be paid by the Member or the employee. In the event that the Member pays, selection of employees to participate cannot be made based on sales of the funds of that fund manager.

3. **Marketing Allowances**

'Marketing Allowance' or 'Bonus Commission' is cash compensation paid for individuals selling more than set amounts of a particular fund or groups of funds. They are **cash**

compensation and the eligibility for such programs should be described in the Prospectus. They are not prohibited by By-law 29.12 but payments are required to be made to the Member, which can, at its discretion, then allocate the payments to the appropriate individuals.

4. **Co-operative Advertising/Trades Shows and Seminars**

These are cash payments made by fund sponsors to assist firms in promotion. As cash payments, they are not affected by 29.12. However, we remind firms of their responsibilities under IDA By-law 29.7, especially the requirement that all advertising be pre-authorized by the Member.

5. **Reciprocal Commissions**

Reciprocal commissions are commissions paid to Members for trades that the Members do on behalf of mutual funds. These are permitted under the By-law.

6. **Trailing Commissions or Service Fees**

These are specifically permitted under the By-law.

7. **Charitable Donations**

Donations may be made 'in honour of' an individual, however, the tax receipt must be issued to, and in the name of, the mutual fund company, not the individual.

8. **Road Shows**

Attendance at promotional road shows put on by mutual funds is permitted, provided that the event is in close proximity to an investment advisor's workplace or residence, or that travel costs are not paid by the fund manager.

9. **Reasonable Business Promotion Activities**

These include tickets to sporting events or theatre, luncheons, etc., which take place in the locale where the recipient is employed or resides. Such activities, to the extent they are reasonable, are permitted by the By-law.

The above list is not all-inclusive. If you have any questions about particular situations, please contact G. M. Clarke, IDA Vice-President, Member Regulation at (416) 865-3038.

PLEASE DISTRIBUTE TO ALL INTERESTED PARTIES IN YOUR FIRM