



THE MANITOBA
SECURITIES
COMMISSION

MSC NOTICE 2003-51

The Securities Act

Trades of Certain Deposit Note Securities by Mutual Fund Dealers

Commission Staff have received a number of requests from mutual fund dealers for approval to sell deposit note securities guaranteed (either directly or indirectly) by a government or by certain financial institutions such as banks. These products are generally sold relying on exemptions from the registration and prospectus requirements. Local Policy 3.06 prevents these securities from being sold by restricted registrants (including mutual fund dealers) without an amendment to the dealer's registration.

The Commission has issued a blanket order to permit mutual fund dealers to sell these products for a limited period (until December 31, 2004) provided certain conditions are met. The conditions are described in Commission Order No. 4322 dated November 14, 2003.

Through this notice, staff would like to emphasize two of the conditions in particular and give guidance of staff's expectations of the mutual fund dealers relying on this order:

- each trade of deposit note securities through a mutual fund dealer must be reviewed for suitability by a senior officer, director or branch manager of the mutual fund dealer who, at a minimum, has successfully completed the Canadian Securities Course or by a person employed by the mutual fund dealer who is otherwise acceptable to the Director, Registrations of the Commission; and
- all obligations of the mutual fund dealer and salesperson to a client under the Act, regulations to the Act and Commission rules, and under the rules and requirements of the Mutual Fund Dealers Association (MFDA) apply to trades of deposit note securities.

Staff expects that mutual fund dealers will be taking the necessary steps to establish procedures and controls for the sales of these products by their salespersons consistent with these conditions so as to ensure:

- The salespersons have a complete and accurate understanding of the product;
- The mutual fund dealer and its salespersons will assess the suitability of trades in these products to their clients and will take steps to "know the client" when assessing suitability.

Given that the products are sold on a prospectus exempt basis, staff expects that mutual fund dealers will take the necessary steps and perform their own due diligence on these products so as to meet their obligations under the order. What due diligence needs to be done may vary from product to product. A failure by either a salesperson or a mutual fund dealer to comply with the conditions of Commission Order No. 4322 could result in a hearing concerning the fitness for continued registration of the salesperson, the mutual fund dealer or both.

It is staff's view that Local Policy 3.04 - *Mutual Fund Distributors Supporting Staff & "Know Your Purchaser"* dated September 1, 1971 applies as well to the sale of deposit notes made in reliance on Commission Order No. 4322.

Questions concerning the notice can be directed to:

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