



MSC NOTICE 2004-50

The Securities Act

Trades of Certain Deposit Note Securities by Mutual Fund Dealers

Commission staff received a number of requests from mutual fund dealers for approval to sell deposit note securities which are 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 issued blanket order no. 4322 dated November 14, 2003 to permit mutual fund dealers to sell these products. **The order expires on December 31, 2004 and there is no intention to extend the order. Instead, any Mutual Fund Dealer who wishes to trade these products should apply for an amendment to their registration. Such applications should be made on a timely basis so as to ensure the term and condition is added prior to the expiry of the order.**

This notice is intended to provide guidance for requesting such an amendment and the expectations staff will have concerning the sales of these products.

The amendment should be a request to add the following to the terms and conditions of registration:

bonds, debentures or other evidences of indebtedness:

1. of, or the payment of the principal and interest of which is guaranteed by, the Government of Canada, the government of any province of Canada, any municipal corporation in any province of Canada, the Government of the United Kingdom or the Government of the United States of America, or
2. of or guaranteed by a bank to which the *Bank Act* (Canada) applies, a trust company or a loan company registered under Part XVI of *The Corporations Act*, a credit union or caisse populaire incorporated under *The Credit Unions and Caisses Populaires Act* or an insurance company licensed under *The Insurance Act*.

All sales of these products must be reviewed for suitability by a senior officer, director or branch manager of the mutual fund 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. **This person must be identified in the application to include this term and condition of registration.**

Given the nature of these products and that they are often sold on a prospectus exempt basis, Staff expects that a dealer applying for this amendment will have in place procedures and controls specific to these products, which would include:

- Ensuring that salespeople will have a complete and accurate understanding of the particular products.
- That know-your-client and suitability assessments take into account the use of disclosure documents which may not be a prospectus.
- The mutual fund dealer will undertake its own due diligence concerning any such product it permits its salespeople to sell to account for the lack of prospectus level disclosure.

Any questions or concerns about this notice can be directed to:

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