



MFDA Investor Protection Corporation

Corporation de protection des investisseurs de l'ACFM

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September 22, 2011

Canadian Securities Administrators
c/o John Stevenson, Secretary
Ontario Securities Commission
19th Floor, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
jstevenson@osc.gov.on.ca

Re: Request for Comments,
Proposed Amendments to NI 31-103 Registration Requirements and Exemptions
June 24, 2011

Dear Sirs/Mesdames:

The MFDA Investor Protection Corporation (“IPC”) is writing to provide comments on certain proposals included in the above-referenced notice. IPC is interested in the proposals with respect to client name securities being included on client statements.

Issue for IPC

The issue in these proposals of most relevance to IPC is the inclusion of client name securities positions on client accounts. This issue is interrelated with the questions of how to disclose to the client the nature of the accounts (client name vs. nominee) and the manner in which IPC coverage applies to the client name positions.

Client Name Positions

NI 31-103 includes a requirement at S. 14.14 to report the name, quantity and market value of each security in the account. Of concern to IPC is the interpretation of the phrase “in the account.” While clients may consider client name positions to be in their account at the dealer, the dealer does not have custody and control of these securities. We recognize that reporting client name positions has value, not only to clients, but also to the dealers themselves for supervisory purposes. The issue for IPC is whether clients understand the difference between the custody arrangements for client name and nominee securities and the resulting implications for compensation fund coverage.

The concern about including client name securities on client statements is not new. Clients have difficulty understanding the distinction between nominee name and client name securities and do not understand where IPC coverage applies. If dealers were to include client name positions on the statements without distinguishing them from nominee accounts, the likelihood that clients will consider that IPC coverage applies equally to those securities will increase.

When securities are held in the custody of an independent third party, they are not likely to be affected by the bankruptcy of an MFDA dealer. However, a problem at the third-party custodian is not a risk covered by IPC. If a third-party custodian had a problem that led to a failure of the dealer, the limits of IPC protection would be more difficult to define if client positions appeared on statements in the same manner as nominee positions.

We do not object to the inclusion of client name positions on client statements but strongly suggest that they be clearly identified as such and the implications of the distinction described on the statements.

Disclosure of IPC Coverage on Statements

In conjunction with the inclusion of client name positions on statements, it will be necessary for a notation to be on the client statement concerning the limitations of IPC coverage. The wording would refer to the nominee and client name descriptions on the statements and could contain elements of the IPC Brochure wording, such as:

“IPC exists to provide compensation to you if your assets are unavailable because your mutual fund dealer becomes bankrupt... Losses caused by other reasons such as the change in the market value of mutual fund securities, unsuitable investments or default of an issuer of a security are not covered. Customer assets not held by the MFDA Member, or not recorded in a customer's account as being held by a MFDA Member (such as mutual fund securities that are registered directly in your name with the mutual fund company) are not eligible for IPC coverage, unless the asset is otherwise in the custody or control of the Member.”

In order for such a warning or explanation to mean anything to the customer, the statements would have to contain some sort of identification of the positions as client name (“registered directly in your name at the mutual fund company”) or otherwise. We understand that dealers generate separate client statements for client name and nominee name positions so that making this type of distinction appears to be operationally possible.

Thank you for the opportunity to comment on these issues. If you have questions or would like further information, please do not hesitate to contact me.

Very truly yours,

“Joni Alexander”

Joni Alexander
President, IPC

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cc: Elizabeth King, Manager, Compliance and Registrant Regulation, OSC
Chris Byers, Legal Counsel, Market Regulation, OSC