MEMBER REGULATION

INVESTMENT DEALERS ASSOCIATION OF CANADA

notice

ASSOCIATION CANADIENNE DES COURTIERS EN VALEURS MOBILIÈRES

Contact:
B. Dickson: (416) 943-5784 - bdickson@ida.ca

MR0361

July 20, 2005

ATTENTION:
Ultimate Designated Persons
Chief Financial Officers
Panel Auditors

Distribute internally to:

- ❑ Corporate Finance
- ❑ Credit
- ❑ Institutional
- ❑ Internal Audit
- ■ Legal & Compliance
- ❑ Operations
- ❑ Registration
- ❑ Regulatory Accounting
- ❑ Research
- ■ Retail
- ■ Senior Management
- ■ Trading desk
- ❑ Training

Unilateral Mutual Fund Substitutions

Many same-family mutual funds are made available to investors that are in all other respects identical, save for such differences as their respective commission loads (e.g., deferred loads, front-end loads, low-loads, no-loads, etc.) and their persistency, or "trailer", fee payouts.

The Association reminds its Members, however, that – for all their other similarities – each fund type remains a separate and distinct security: one may neither replace nor be substituted for the other except at an accountholder's express direction and not without triggering all the recordkeeping and client notification requirements that accompany any other normal course, non-automatic mutual fund transaction.

The above distinctions notwithstanding, given that such funds are virtually identical in all other respects, there would be little justification for recommending or soliciting switches from one type to another; therefore Members are also reminded to ensure their policies and procedures include the means necessary to guard effectively against such practices.

This Notice is not directed at automatic conversion programs where a mutual fund has made full disclosure of and provision for the requisite information in the fund prospectus. It is also not directed at re-org type situations, such as where one class of a particular fund is being entirely superseded by another.

References: IDA By-law 29.1

IDA Regulation 200.1 (h)