

POLICY STATEMENT Q-20 USE BY DEALERS OF BROKERAGE COMMISSIONS AS PAYMENT FOR GOODS OR SERVICES OTHER THAN ORDER EXECUTION SERVICES ("SOFT DOLLAR" DEALS)

Introduction

The *Commission* has shared the growing concern both within and outside of the investment community about certain aspects of the use by dealers of commissions on brokerage transactions as payment for goods or services other than order execution or services directly related to order execution ("soft dollar" deals).

The negotiation of commissions on brokerage transactions executed on behalf of a manager of a portfolio or fund of securities is governed by the general obligation of the manager to act in the best interests of the beneficiaries of the portfolio or fund. Accordingly, such commissions must only be used as payment for goods or services which are for the benefit of the beneficiaries and should not be used as payment for goods or services which are for the benefit of the manager. The *Commission* has determined that, in order to support public confidence in the integrity of market practices, it is necessary to provide regulatory guidelines and disclosure requirements with respect to "soft dollar" deals.

Part 1 Definitions

1. In this Policy Statement,

"order execution services" means order execution, and services directly related to order execution such as clearance, settlement and custody, whether the services are provided by a dealer directly or by a third party.

"investment decision-making services" means:

- (1) advice as to the value of securities and the advisability of effecting transactions in securities;

- (2) analyses and reports concerning securities, portfolio strategy or performance, issuers, industries, or economic or political factors and trends; and
- (3) data bases or software to the extent they are designed mainly to support the services referred to in (i) and (ii).

Part 2

Regulatory Guidelines and Disclosure Requirements

Division 1

Commissions on Brokerage Transactions

2. A dealer may not use any portion of the commissions earned on brokerage transactions executed on behalf of a manager as payment for goods or services provided to the manager other than order execution services or investment decision-making services.

3. A manager may not direct brokerage transactions to a dealer as payment for goods or services provided to the manager other than other execution services or investment decision-making services.

4. Upon request, a manager, other than the manager of a mutual fund, shall provide to the *Commission*, or to a beneficiary of the portfolio or fund, or, in the case of a portfolio or fund with a trustee, to the trustee, the following information concerning investment decision-making services received by him during the most recently completed financial year of the portfolio or fund where the remuneration for those services was paid through commissions on brokerage transactions executed on behalf of the manager:

- (1) the names of the persons who have provided those services; and
- (2) a summary of the nature of those services.

Division 2

Principal Transactions

5. A dealer as principal, may not buy securities from, or sell securities to, a manager where the price of the securities, including any applicable mark-down or mark-up by the dealer, has been adjusted to compensate the dealer for goods or services provided to the manager other than order

execution services or investment decision-making services.

Division 3 Mutual Funds

6. A manager of a mutual fund may not pay a dealer for the distribution of shares or units of the mutual fund by directing brokerage transactions to that dealer or, at the request of the dealer, to a third party, unless the commission rates on those brokerage transactions are equivalent to the commission rates that would have been normally charged by the dealer or the third party, as the case may be for those brokerage transactions, in circumstances where the dealer did not distribute shares or units of the mutual fund.

This provision applies not with standing sections 2 and 3.

7. The annual information form or prospectus of a mutual fund must disclose:

- (1) the names of the persons who have provided any investment decision-making services to the manager since the date of the last annual information form or prospectus, together with a summary of the nature of those services, where the remuneration for those services was paid through commissions on brokerage transactions executed on behalf of the mutual fund; and
- (2) an estimate of the aggregate amount of any commissions on brokerage transactions that were directed to dealers since the date of the last annual form or prospectus of the mutual fund where the commissions were linked to the distribution of shares or units of the mutual fund by the dealers.

Décision n° 7986 -- 30 octobre 1986
Bulletin hebdomadaire : 1986-10-31 Vol. XVIII n° 44

Décision 2001-C-0253 -- 12 juin 2001
Bulletin hebdomadaire, Vol. XXXII n°25, 2001-06-22

Regulation was repealed on June 30, 2010

Decision 2009-PDG-0199 -- 2009-12-23
Bulletin de l'Autorité : 2010-02-19, Vol. 7 n° 07
M.O. 2010-02, January 31, 2010, G.O. February 17, 2010
