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January 25, 2005

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - Securities Act s. 48,76 Other - Exemption from s. 34(1)(a) requirement to be registered as a dealer for a trade and s. 61 requirement to file a prospectus for a distribution other than in connection with a corporate acquisition or reorganization; business associates; debt settlements; or employee investment plans and consultants - Trades by a non-mutual fund in connection with its distribution reinvestment plan - Issuer is an investment trust; under its plan, income of the trust can be distributed to its investors through the automatic issuance of additional units to the investors; investors can elect to receive cash in lieu of additional trust units; no fee is paid by investors to participate in the plan

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 48 and 76

In the Matter of
the Securities Legislation of
British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, Nova
Scotia, New Brunswick, Prince Edward Island, Newfoundland and Labrador,
Yukon, Nunavut and Northwest Territories (The “Jurisdictions”)

and

In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications

and

In the Matter of
Flaherty & Crumrine Investment Grade Fixed Income Fund (The “Filer”)

MRRS Decision Document

Background

The local securities regulatory authority or regulator (the “Decision Maker”) in each of the Jurisdictions has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the “Legislation”) for an exemption from the dealer registration requirement and the prospectus requirements of the Legislation (the “Requested Relief”) for certain trades of units of the Filer pursuant to a distribution reinvestment plan (the “Plan”).

Under the Mutual Reliance Review System for Exemptive Relief Applications:

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- (a) the Ontario Securities Commission is the principal regulator for this application; and
- (b) this MRRS decision document evidences the decision of each Decision Maker.

Interpretation

Defined terms contained in National Instrument 14-101 Definitions have the same meaning in this decision unless they are defined in this decision.

Representations

This decision is based on the following facts represented by the Filer:

1. The Filer is an investment trust established under the laws of the Province of Alberta and governed by a declaration of trust dated October 29, 2004 as amended and restated on November 25, 2004. The Filer's head office is located in Ontario.
2. The beneficial interests in the Filer are divided into a single class of limited voting units (the "Units"). The Filer is authorized to issue an unlimited number of Units. Each Unit represents a Unitholder's proportionate undivided beneficial interest in the Filer.
3. The Filer filed a final prospectus dated November 25, 2004 (the "Prospectus") with the securities regulatory authorities in each of the Jurisdictions qualifying for distribution units of the Filer and became a reporting issuer or the equivalent in the Jurisdictions upon obtaining a receipt for the Prospectus on November 26, 2004 from each of the Jurisdictions. As of the date hereof, the Filer is not on the list of defaulting reporting issuers maintained by any of the Jurisdictions.
4. The Filer is not considered to be a "mutual fund" as defined in the Legislation because the holders of the Units (the "Unitholders") are not entitled to receive "on demand" an amount computed by reference to the value of a proportionate interest in the whole or in part of the net assets of the Filer as contemplated in the definition of "mutual fund" in the Legislation.
5. The Units are listed and posted for trading on the Toronto Stock Exchange (the "TSX") under the symbol "FFI.UN". As of December 31, 2004, 14,882,310 Units were issued and outstanding.

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6. Brompton FFI Management Limited is the manager and the promoter of the Filer (the “Manager”).
7. Flaherty & Crumrine Incorporated is the portfolio manager of the Filer (the “Portfolio Manager”). The Portfolio Manager will provide investment advisory and portfolio management services for the Filer in accordance with and subject to the terms of the portfolio management agreement.
8. Computershare Trust Company of Canada is the trustee of the Filer.
9. Brompton Capital Advisors Inc. (the “Advisor”) has been retained by the Filer and the Manager to be the principal investment advisor of the Filer and will be responsible to the Filer for services provided by the Portfolio Manager. The Advisor will monitor the provision of the investment advisory or portfolio management services for the Filer by the Portfolio Manager.
10. The Filer will invest the net proceeds of the offering of the Units together with proceeds from borrowings in the investment grade portfolio (the “Investment Grade Portfolio”) with the objectives of: (i) providing Unitholders with a stable stream of monthly distributions targeted to be \$0.1354 per unit; (ii) mitigating the impact of significant interest rate increases on the value of the Investment Grade Portfolio; (iii) preserving Net Asset Value per Unit; and (iv) enhancing the total return per Unit by actively managing the Investment Grade Portfolio. The Investment Grade Portfolio will be actively managed and will consist primarily of various corporate debt securities and hybrid preferred securities of North American issuers.
11. The Filer intends to make monthly cash distributions (“Distributions”) no later than the tenth business day of each month (each a “Distribution Date”) to a Unitholder of record on the last business day of the immediately preceding month.
12. The Filer intends to adopt the Plan so that Distributions will, if a Unitholder so elects, be automatically reinvested on such Unitholder’s behalf in accordance with the provisions of the agreement governing the operation of the Plan (the “DRIP Agreement”) entered into by the Manager, on behalf of the Filer, and Computershare Trust Company of Canada, as plan agent (the “Plan Agent”).
13. Non-residents of Canada within the meaning of the *Income Tax Act* (Canada) are not eligible to participate in the Plan.
14. Pursuant to the terms of the Plan, a Unitholder may elect to become a participant in the Plan by notifying a participant in CDS (the “CDS

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Participant”) through which the Unitholder holds his or her Units of the Unitholder’s intention to participate in the Plan. The CDS Participant shall, on behalf of the Unitholder, provide notice to CDS (the “Participation Notice”) of the Unitholder’s participation in the Plan no later than the close of business on the business day which is two business days prior to the last business day of each calendar month (the “Record Date”) in respect of the next expected Distribution in which the Unitholder intends to participate, by delivering to CDS authorization in the manner prescribed by CDS from time to time. CDS shall, in turn, notify the Plan Agent no later than the close of business on the date that is two business days immediately preceding such Record Date of such Unitholder’s participation in the Plan.

15. Distributions due to Unitholders who have elected to participate in the Plan (the “Plan Participants”) will automatically be reinvested on their behalf by the Plan Agent to purchase plan Units (“Plan Units”) in accordance with the following terms and conditions:
 - (a) if the weighted average trading price of Units on the TSX (or such other exchange or market on which the Units are then listed, if the Units are not listed by the TSX) for the 10 trading days immediately preceding the relevant Distribution Date, plus applicable commissions or brokerage charges (the “Market Price”) on the relevant Distribution Date is less than the Net Asset Value per Unit on the Distribution Date, the Plan Agent shall apply the Distributions either to purchase Plan Units in the market or from treasury in accordance with subparagraph (c) below;
 - (b) if the Market Price is equal to or greater than the Net Asset Value per Unit on the relevant Distribution Date, the Plan Agent shall apply the Distributions to purchase Plan Units from the Filer through the issue of new Units at a purchase price equal to the higher of (A) the Net Asset Value per Unit on the relevant Distribution Date, and (B) 95% of the Market Price on the relevant Distribution Date; and
 - (c) purchases of Plan Units described in subparagraph (a) above will be made in the market by the Plan Agent on an orderly basis during the 6 trading day period following the Distribution Date and the price paid for those Plan Units will not exceed 115% of the Market Price of the Units on the relevant Distribution Date. On the expiry of such 6 day period, the unused part, if any, of the Distributions will be used to purchase Plan Units from the Filer at a purchase price equal to the Net Asset Value per Unit on the relevant Distribution Date.

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16. Plan Units purchased under the Plan will be registered in the name of CDS and credited to the account of the CDS Participant through whom a Unitholder holds Units.
17. No fractional Units will be issued under the Plan. A cash adjustment for any uninvested Distributions will be paid by the Plan Agent to CDS on a monthly basis to be credited to the Plan Participants via the applicable CDS Participants.
18. The Plan Agent will be purchasing Plan Units from the Filer only in accordance with the mechanics described in the Plan, and accordingly, there is no opportunity for a Plan Participant or the Plan Agent to speculate with respect to changes in the Net Asset Value per Unit.
19. The Filer will invest in the assets with the objective of providing Unitholders with a high level of sustainable income as well as a cost-effective method of reducing the risk of investing in such securities. Accordingly, the Net Asset Value per Unit should be less volatile than that of a typical equity Filer, and the potential for significant changes in the Net Asset Value per Unit over short periods of time is moderate.
20. The amount of Distributions that may be reinvested in Plan Units issued from treasury is small relative to the Unitholders' equity in the Filer. The potential for dilution arising from the issuance of Plan Units by the Filer at the Net Asset Value per Unit on a relevant Distribution Date is not significant.
21. The Plan is open for participation by all Unitholders other than non-residents of Canada, such that any Canadian resident Unitholder can ensure protection against potential dilution by electing to participate in the Plan.
22. A Plan Participant may terminate his or her participation in the Plan by written notice to the CDS Participant through which the Plan Participant holds his or her Units. CDS will then inform the Plan Agent and thereafter Distributions on such Units held by such Unitholder will be paid to the CDS Participant.
23. The Plan Agent's charges for administering the Plan will be paid by the Filer out of the assets of the Filer.
24. The Manager may terminate the Plan at any time in its sole discretion upon not less than 30 days notice to the Plan Participants, via the applicable CDS Participant and the Plan Agent.

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25. The Manager also reserves the right in its sole discretion to suspend the Plan at any time, in which case the Manager must give written notice of the suspension to all Plan Participants via the applicable CDS Participant.
26. The Manager may, in consultation with the Plan Agent, adopt additional rules and regulations to facilitate the administration of the Plan, which shall, once adopted, be deemed to form part of the DRIP Agreement.
27. The Manager may also amend the Plan or the DRIP Agreement at any time, in its sole discretion, provided that: 1. if the amendment is material to Plan Participants, at least 30 days notice shall be given to Plan Participants via the applicable CDS Participant and to the Plan Agent; and 2. if the amendment is not material to Plan Participants, notice may be given to Plan Participants and to the Plan Agent after effecting the amendment. No material amendment will be effective until it has been approved by the TSX (if required).
28. The Manager may, upon 90 days written notice to the Plan Agent, and upon payment to the Plan Agent of all outstanding fees payable, remove the Plan Agent and appoint any person or entity authorized to act as agent under the Plan.
29. The distribution of the Plan Units by the Filer pursuant to the Plan cannot be made in reliance on certain registration and prospectus exemptions contained in the Legislation as the Plan involves the reinvestment of distributable income distributed by the Filer and not the reinvestment of dividends or interest of the Filer.
30. The distribution of the Plan Units by the Filer pursuant to the Plan cannot be made in reliance on certain registration and prospectus exemptions contained in the Legislation for distribution reinvestment plans of mutual funds, as the Filer is not considered to be a “mutual fund” as defined in the Legislation because the Unitholders are not entitled to receive on demand an amount computed by reference to the value of a proportionate interest in the whole or in a portion of the net assets of the Filer.

Decision

Each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met.

The Decision of the Decision Makers under the Legislation is that:

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- (a) except in Alberta, New Brunswick, and Saskatchewan, the Requested Relief is granted provided that:
 - (i) at the time of the trade or distribution the Filer is a reporting issuer or the equivalent under the Legislation and is not in default of any requirements of the Legislation;
 - (ii) no sales charge is payable in respect of the trade;
 - (iii) the Filer has caused to be sent to the person or company to whom the Plan Units are traded, not more than 12 months before the trade, a statement describing:
 - (I) their right to elect to participate in the Plan on a monthly basis to receive Plan Units instead of cash on the making of a Distribution by the Filer and how to terminate such participation; and
 - (II) instructions on how to make the election referred to in (I);
- (b) in each of the Jurisdictions the first trade (alienation) of the Plan Units acquired under this Decision shall be deemed to be a distribution or a primary distribution to the public; and
- (c) in each of the Jurisdictions the prospectus requirement contained in the Legislation shall not apply to the first trade (alienation) of Plan Units acquired by Plan Participants pursuant to the Plan, provided that:
 - (i) except in Québec, the conditions in paragraphs 2 through 5 of subsection 2.6(3) of Multilateral Instrument 45-102 – *Resale of Securities* are satisfied; and
 - (ii) in Québec:
 - (I) the Filer will be required to file a report on the number of units distributed for every financial year in Québec at the time of filing its annual report;
 - (II) at the time of the alienation the Filer is a reporting issuer in Québec and is not in default of any of the requirements of securities legislation in Québec;

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- (III) no unusual effort is made to prepare the market or to create a demand for the Plan Units;
- (IV) no extraordinary commission or other consideration is paid to a person or company other than the vendor of the Plan Units in respect of the first trade; and
- (V) the vendor of the Plan Units, if an insider with the Filer, has no reasonable grounds to believe that the Filer is default of any requirement of the Legislation.

H. Lorne Morphy
Commissioner

Suresh Thakrar
Commissioner

Ontario Securities Commission