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COR#06/024

Headnote

National Instrument 81-105 s. 9.1 - Mutual Fund Sales Practices - A member of the organization of a mutual fund wants relief from the compensation prohibitions in ss. 2.1(1)(b), 2.2(1) and 5.2 of NI 81-105 so the member of the organization of the mutual fund can control which dealer representatives are invited to its educational seminars - The mutual fund copies the dealer with each invitation made to a dealer's representative to attend an educational seminar; the dealer can prohibit a representative invited to an educational seminar from attending; the mutual fund must consider additional suggestions made by the dealer for representatives to attend educational seminars if the invitations are received by the mutual fund in a timely way.

Exemption Order

Dimensional Fund Advisors Canada Inc.

Section 48 of the *Securities Act*, RSBC 1996, c. 418

Background

- ¶ 1 Dimensional Fund Advisors Canada Inc. (DFA) requested relief from sections 2.1(1)(b), 2.2(1) and 5.2 of National Instrument 81-105 *Mutual Fund Sales Practices* (NI 81-105); these rules require that dealers, uninfluenced by mutual fund organizations, select which of their representatives attend fund-sponsored educational conferences; DFA wants control over who is invited to its educational conferences and, so, needs relief from these rules.

Representations

- ¶ 2 This decision is based on the following facts represented by DFA:
1. DFA is a registered portfolio manager under the Act; its head office is in British Columbia;
 2. DFA is the Canadian subsidiary of Dimensional Fund Advisors Inc. (DFA U.S.); DFA U.S. was founded in 1981; DFA U.S. first offered investment management services only to institutional clients; it started offering funds to retail investors in the U.S. in 1990 and, through DFA, in 2003 in Canada;
 3. DFA is or will be the manager, portfolio manager, and promoter of the Dimensional funds (the funds); the securities of the funds are offered or may be offered by simplified prospectus; DFA has retained (or will retain) DFA U.S. or other affiliates to act as sub-adviser(s) for the funds;

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4. each of DFA, DFA U.S., and other affiliates of DFA (collectively, the Dimensional Group) is and will be a member of the organization of each of the funds as defined in section 1.1 of NI 81-105;
5. the funds are only available to retail investors through representatives authorized by DFA (approved representatives);
6. DFA enters into distribution agreements with dealers to offer the funds; the distribution agreement requires each dealer to acknowledge that DFA will only accept orders for securities of the funds from approved representatives;
7. approved representatives must complete the following multi-stage process of mutual due diligence and authorization:
 - DFA gives the representative applying for authorization materials about the Dimensional Group and the research behind its investment philosophy;
 - DFA's regional managers and the representative meet (in person or by phone) to review and discuss the materials provided by DFA;
 - the representative attends an introductory conference and learns about the Dimensional Group's approach to investing;
 - the representative submits a business plan acceptable to DFA; and
 - the representative's dealer enters into a distribution agreement with DFA;
8. DFA will only invite a representative to an introductory conference who has completed the preliminary stages of the due diligence process; DFA will not authorize a representative whose investment philosophy and business plan are not suitable for the funds;
9. DFA and other members of the Dimensional Group also organize and present regular seminars and educational conferences (educational seminars) for approved representatives; only approved representatives are invited to attend educational seminars;
10. when a representative attends an introductory conference or an educational seminar, the dealer or the representative pays for travel and accommodation

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costs; some of the introductory conferences and educational seminars are held in the continental United States of America; and

11. DFA does not provide incentives, agree to provide incentives, or imply that it will provide incentives to approved representatives or to representatives going through the mutual due diligence process with DFA.

Decision

¶ 3 Considering that it is not prejudicial to the public interest, the Commission orders under section 48 of the Act that DFA is exempt from the requirements in sections 2.1(1)(b), 2.2(1) and 5.2 of NI 81-105 as long as:

- (a) at the same time as DFA invites a representative to an introductory conference or an educational seminar, it sends a copy of that invitation and the representative's name to the representative's dealer;
- (b) the dealer can veto attendance of any or all of its representatives at the conferences; and
- (c) for introductory conferences, DFA will consider a dealer's timely request that an additional representative be invited.

¶ 4 March 20, 2006

Robin Ford
Commissioner